STOCKS! BONDS! BEST MUTUAL FUNDS!

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# FORTUNE

SPECIAL ISSUE

# 1993 INVESTOR'S GUIDE

## Peter Lynch, Mario Gabelli, Elaine Garzarelli, and Others Tell Where to Put Your Money Now

## ALSO: TAX TIPS, RETIREMENT PLANNING, AND MUCH MORE

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# 1993 INVESTOR'S GUIDE

FALL 1992

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# FORTUNE

**ABOVE: The path to financial success demands a willingness to take on risks—not reckless speculation, but prudent ventures into long-term investments. Illustration by Dickran Palulian.**

**COVER: Photograph by Elizabeth Watt.**


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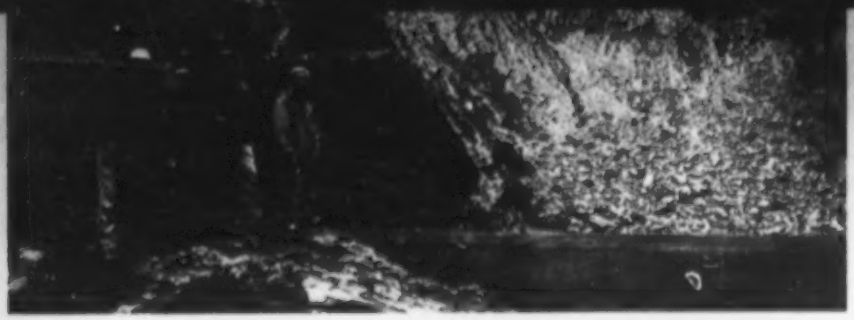

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# IDEAS THAT YOU CAN PROFIT BY

HOW CAN you achieve financial gains in a troubled economy? The best approach is summed up by the way the Chinese write "crisis"—using two characters, danger and opportunity. Never has it been more essential to sidestep the dangers and capitalize on the opportunities. This Investor's Guide aims to make that challenge easier. It provides a unique spectrum of detailed strategies and practical tips for meeting your financial goal—whether it is paying for your next vacation or preparing for a comfortable retirement.

Senior editor John Curran supervised our eighth annual Investor's Guide. An award winner for his coverage of financial markets, Curran charged his team of writers and reporters with three important tasks. Says he: "In this environment, it is critical to have a disciplined investing plan, to keep the costs of investing as low as possible, and to be open to new ideas. These stories should help you on all three fronts."

You'll find not only ideas but also useful, practical instructions on how to apply them. Money can still be made in stocks, as writer Terence Paré explains on page 16 in an insightful analysis of the market's prospects. Turn to page 50 to hear four of the top investment minds in the country advise on the best ways to invest $100,000 (the ideas work for lesser sums too). On page 38, writer Susan Kuhn vividly details how to make your investment stake grow 10% or better.

Faced with sluggish markets at home and in major European capitals, investors can find some of the best prospects in other fast-growing economies and new stock markets that are just opening. You don't have to look further than the map with vital statistics on stock markets the world over, on page 90. No other guide provides this kind of global perspective. You'll see surprisingly high returns in seemingly unlikely places, such as Mexico and the Philippines.

PETE CARMICHAEL

**Issue editor Curran (left, foreground) and the Guide's crew**

To help lower the costs of investing, we offer an expanded ranking of mutual funds, which takes you beyond the reported performance numbers and shows how much you'll actually pocket from a fund after all sales commissions and taxes are subtracted. In case you haven't noticed, brokers' fees are on the rise, so it's also worth checking our survey of brokerage services and fees.

In these uncertain times, this idea-rich special issue can be the investor's guiding light.

Marshall Loeb

MANAGING EDITOR

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# FINDING BUYS WHEN STOCKS ARE HIGH

With the Dow way up there and the economy crawling, investors shouldn't just play the market. They should look for solid businesses that will survive and grow. ■ *by Terence P. Paré*

QUITE A FEW investors, remembering how the Dow Jones industrial average leaped 20% in 1991, took to the stock market dance floor this year expecting to boogie. Yet despite falling interest rates and rising corporate profits, the Dow has stepped up a mere 3% since the beginning of the year. That kind of performance is not what you'd call the flatfoot floogee with the floy-floy.

Don't expect to kick up your heels in 1993 either. True, we are pegging along into recovery. But economic growth continues to be slow. FORTUNE, along with others, forecasts growth of just 1.8% for 1992 (see The Outlook). Without a strong economy to propel earnings, stock prices are high. Too darn high, says Jeffrey Diermeier, managing partner at Brinson Partners, an investment advisory firm in Chicago: "We think that the market is overpriced by 15% to 20%. At best, stocks will be dead in the water for the next two years."

Pessimism like that may prompt you to follow the droves of investors who are moving into fixed-income investments, espe-

ILLUSTRATION BY JIM MCMANUS

cially bond funds. But most stockholders have no reason to liquidate their portfolios, although some may want to cut back on their big winners. The black mood among the pros is far from universal. Measured against future earnings rather than the latest four quarters, stock prices cause less uneasiness. And both bulls and bears agree that equities can still make sense if you choose your companies carefully.

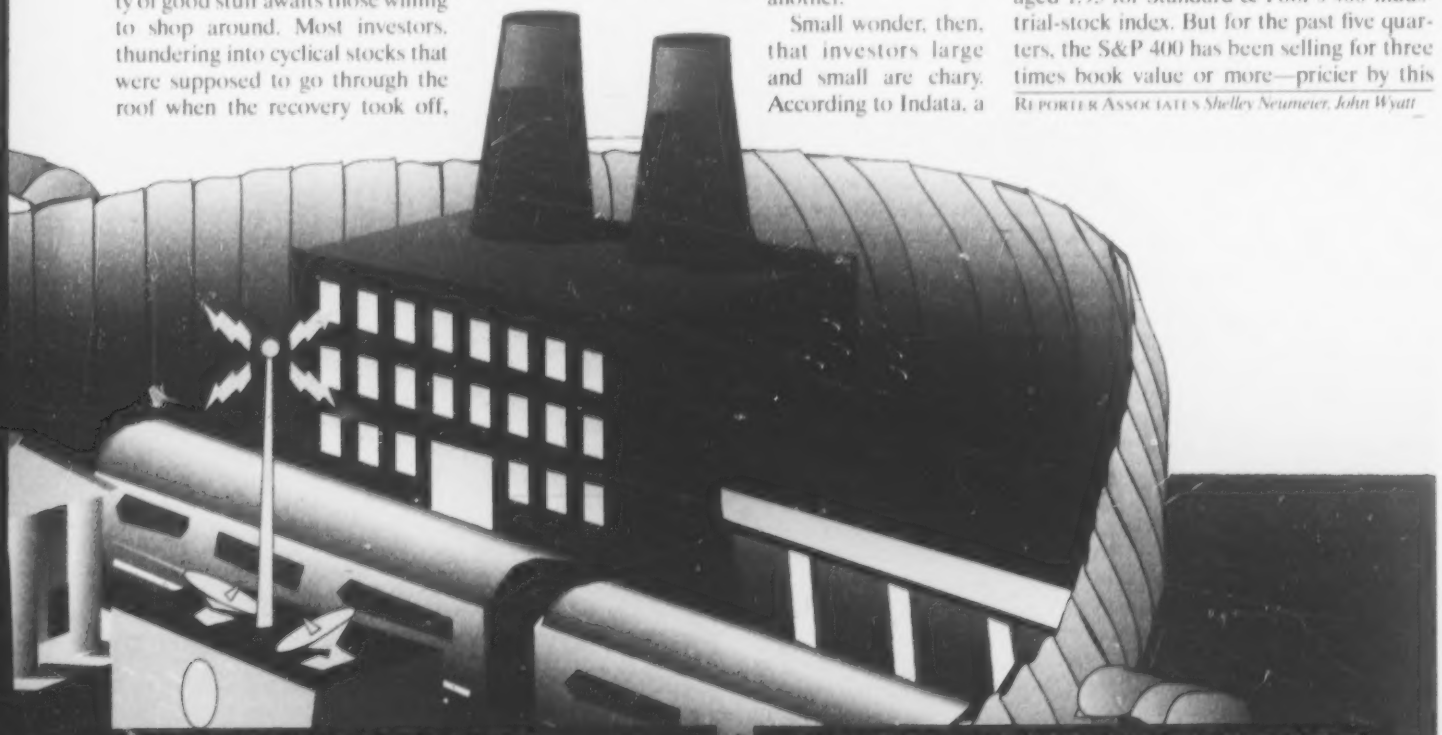
Focus on finding strong businesses, say the pros. Then worry about getting the stocks on the cheap. Even if you overpay for a good business, eventually you will get your money back as the company grows and the market recognizes the fact. But if you buy a bad business and it goes the way of all flesh, so does your investment. Fortunately, plenty of good stuff awaits those willing to shop around. Most investors, thundering into cyclical stocks that were supposed to go through the roof when the recovery took off, ignored scores of good companies selling at acceptable prices, including the 50 listed at the end of this article.

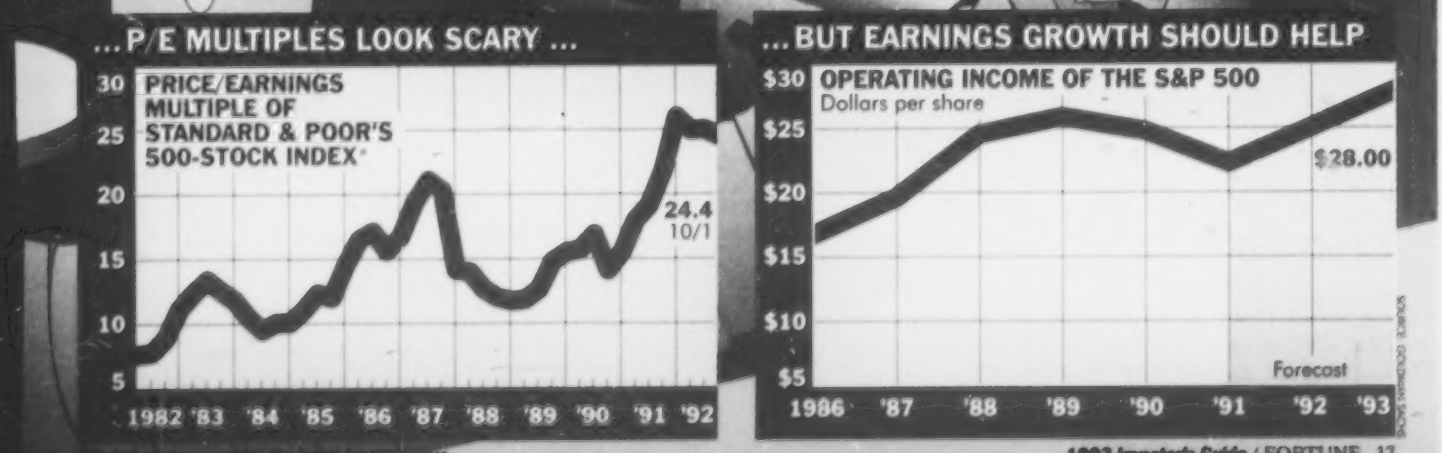
The continued sluggishness of the economy, a seemingly unshakable flu contracted in the debt-crazed 1980s, accounts for much of the Wall Street gloom. Compounding the pessimism is the fact that Wall Street has no institutional memory of a slow-growth, low-inflation recovery. The market's behavior itself has added to the confusion. During previous economic recoveries, certain groups of stocks tended to lead the rest of the market. But this time around, says Harold A. Mackinney, chairman of Fleet Investment Advisors in Providence, "there has been an awful lot of shifting from one group of stocks to another."

Small wonder, then, that investors large and small are chary. According to Indata, a Connecticut outfit that tracks the performance of some 2,500 institutional portfolios, pension fund managers raised their cash positions from 3.9% of assets last February to about 5.2% in late September. And in a recent survey of its most active customers, discount broker Quick & Reilly found that individual investors felt they should be keeping about 32% of their assets on the sidelines. That caution seems justified, says Melissa Brown, who directs quantitative research at Prudential Securities: "I just don't see a fundamental case that can be made for stocks."

Take the ratio of price to book value per share, which compares the market price of a company with its net worth. Over the past 33 years, the price-to-book ratio has averaged 1.95 for Standard & Poor's 400-industrial-stock index. But for the past five quarters, the S&P 400 has been selling for three times book value or more—pricier by this

REPORTER ASSOCIATES *Shelley Neumeier, John Wyatt*





barometer than at any time since 1926, when reliable statistics begin. When the dividend yield on stocks falls to 3% or less, goes another Wall Street saying, prices are dangerously high. At a recent yield of 3.02% on the S&P 500, stocks are knocking on heaven's door.

The worm of doubt that really eats at market watchers taurine and ursine is the price/earnings multiple, recently about 24.4 for the S&P 500. Ten times, from 1946 through September 1991, the market has ended a quarter with the P/E above 20. In eight instances, stock prices tumbled 4.3% to 17.5% over the following 12 months. One exception, the first quarter of 1961, was the beginning of a rampaging bull market that stumbled shortly after John Glenn blasted off in *Friendship 7* in 1962. The other exception, the third quarter of 1991, is a story that has yet to play itself out.

Steady-growth stock pick: snackmaker PepsiCo

The tale could yet have a happy ending. Co-chair Abby Cohen of the investment policy committee at Goldman Sachs, who considers the market 14% to 15% *undervalued*, sees silver linings. Cohen notes that the P/Es that have everyone so frightened are based on reported earnings pinched over the past four quarters by economic malaise and a wave of corporate write-downs.

But look ahead, she says, to the full year 1992. Correct for the distortion of the charge-offs and consider operating earnings per share of the S&P 500, a composite number that reflects the performance trends of companies making up the index. On this basis, Goldman Sachs estimates profits at $25 per share. The P/E drops to 17, about average for a period of moderate inflation. Cohen says that next year the S&P 500 will earn $28 per share on an operating basis, resulting in a P/E comfortably below 17 and leaving room for stocks to move higher.

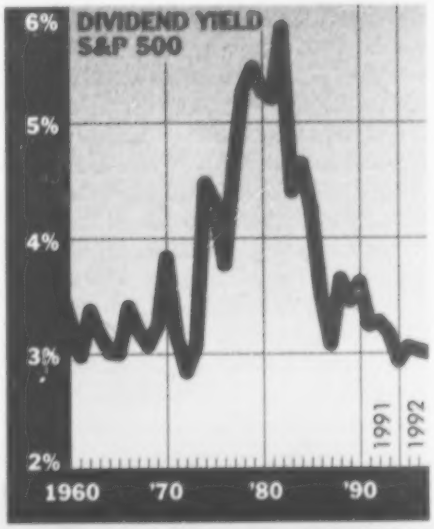
But even Cohen agrees with the pessimists that this is a stock picker's market. Only well-captained ships can successfully navigate this slow economic recovery, she says. Investors will do best to avoid the hot tips in favor of well-run companies with strong financials and admirable track records in good times and bad.

MACKINNEY of Fleet, who counts himself among the bulls, thinks that **Philip Morris** will smoke. The company, selling at 13 times expected 1993 earnings, is thought to be on a 20%-a-year earnings-growth trajectory, vs. a projected 8% for the S&P 500. "It's probably the cheapest stock on the Big Board," says Mackinney, who also expects **American International Group** to do well. The big insurance company will take some hits from Hurricane Andrew. But the company is superbly managed and, for a price that is just 13 times 1992 earnings, you are getting a company whose profits should ramp up at 15% a year.

Parker Hall, president of Lincoln Capital Management, a money management firm based in Chicago, champions tried-and-true growth stocks. So what if the economy comes back modestly, says he. Profits at his companies—**Merck**, **PepsiCo**, and **Student Loan Marketing Association**, a.k.a. Sallie Mae—are bouncing up brazenly just the same. According to the most recent consensus of analysts' estimates, compiled by the Institutional Brokers Estimate System, Merck's net income per share should rise 18% in 1992, while earnings at Sallie Mae and PepsiCo should bound ahead more than 15%. Analysts are impressed by PepsiCo's latest moves to expand overseas. Says Hall: "Hope springs eternal that earnings will surge for cyclical companies. Why bother? The old guys I have just keep plugging along at an average of 15%."

**Unilever N.V.**, the Netherlands-based half

## THREE REASONS TO BE CAUTIOUS




### THE MARKET AFTER HIGH P/E s

| Quarters in which P/E of S&P 500 ended above 20 | P/E | Subsequent stock prices | |
|---|---|---|---|
| | | 6 months later | 12 months later |
| 1946: first | 20.1 | down 17.3% | down 16.1% |
| 1946: second | 21.9 | down 17.0% | down 17.5% |
| 1961: first | 21.1 | up 2.6% | up 6.9% |
| 1961: second | 21.3 | up 10.7% | down 15.3% |
| 1961: third | 21.9 | up 4.2% | down 15.7% |
| 1961: fourth | 22.4 | down 23.5% | down 11.8% |
| 1962: first | 20.6 | down 19.1% | down 4.3% |
| 1987: second | 21.1 | down 18.7% | down 10.0% |
| 1987: third | 20.3 | down 19.6% | down 15.5% |
| 1991: third | 21.8 | up 4.1% | up 7.9% |

Watch out when stocks climb far above book value, offer skimpy dividends, and linger at lofty P/Es that often precede sharp corrections.

of the Anglo-Dutch consumer goods company, is on Goldman Sachs's buy list. Goldman analyst Jack Salzman thinks that the company will boost earnings by 11% in 1992 and 14% in 1993 as a cost-cutting program starts to pay off. While Unilever functions as a single entity, you can invest in either the British company or the Dutch. Theoretically, the securities for the two outfits should trade at parity. But right now, possibly because of the strength of the guilder relative to the pound, the British variety is trading at a P/E of 15 based on Salzman's estimate of 1992 earnings, while the Dutch trades at a multiple of about 14. **Kimberly-Clark** is another Goldman pick. The diaper maker's P/E, just 16, is below the market's, but its return on equity is a spanking 20% compared with 14% for the market as a whole.

FOR A DIFFERENT slant, listen to Anthony Spare of Spare Tengler Kaplan & Bischel, a San Francisco investment adviser. Spare, whose name appropriately rhymes with bear, urges investors to stick to cheap stocks of strong companies that pay big dividends. That way, he says, even if prices go down you will still be collecting that check every quarter. But be prepared to sell, says Spare, if a steep price rise leaves the dividend yield too low.

**Dow Chemical**, which is yielding 4.6%, meets Spare's criteria. He believes the company's commodity chemicals and consumer products, like Saran Wrap, and its 70% ownership of **Marion Merrell Dow**, the pharmaceutical outfit, provide earnings strength through all the turns of the business cycle. Another Spare choice: **Bristol-Myers Squibb**, which yields 4.3%, sells at a P/E of 16 based on full-year 1992 earnings, and should boost earnings at a 15% clip over the next five years.

Diermeier likes some health care stocks. At 17 times the past four quarters' earnings, pillmaker **Schering-Plough** goes down easy relative to its drug stock peers, which command an average P/E of 20. And analysts' expectations for the company are rising. **Hillenbrand Industries**, based in Batesville, Indiana, makes hospital beds, high-security locks, and caskets. The P/E, 28 times trailing earnings, is high-powered, but so is the anticipated 15% growth rate in earnings. Here's a company that profits from the human frailties of crime, sickness, and death, all growth businesses. What more could a market bear ask for? F

## FIFTY STOCKS TO BUY NOW

| COMPANY | SYMBOL | PRINCIPAL BUSINESS | PROJECTED EARNINGS growth rate next 5 yrs.* | RECENT PRICE | P/E |
|---|---|---|---|---|---|
| Abbott Laboratories | ABT | Pharmaceuticals | 15% | $28 | 20 |
| American International Group | AIG | Insurance | 15% | $103 | 14 |
| American Cyanamid | ACY | Chemicals | 14% | $56 | 13 |
| American Home Products | AHP | Pharmaceuticals | 12% | $68 | 15 |
| Baldor Electric | BEZ | Motors | 10% | $27 | 21 |
| Banc One | ONE | Banking | 12% | $44 | 14 |
| Barnett Banks | BBI | Banking | 10% | $37 | 17 |
| Bell Atlantic | BEL | Local phone service | 6% | $49 | 14 |
| Bristol-Myers Squibb | BMY | Pharmaceuticals | 15% | $64 | 16 |
| Brown-Forman 'B' | BFB | Distillery | 13% | $87 | 16 |
| Burlington Northern | BNI | Railroad | 11% | $39 | 13 |
| Citizens Utilities 'B' | CZNB | Utility | 8% | $27 | 19 |
| Deluxe | DLX | Check printing | 13% | $42 | 18 |
| Dillard Department Stores 'A' | DDS | Department stores | 18% | $37 | 19 |
| Disney (Walt) | DIS | Entertainment | 19% | $37 | 28 |
| Dow Chemical | DOW | Chemicals | 10% | $57 | 21 |
| Emerson Electric | EMR | Electrical equipment | 10% | $55 | 19 |
| Federal National Mortgage Assn. | FNM | Mortgage loans | 14% | $66 | 12 |
| Federal Home Loan Mortgage | FRE | Mortgage loans | 14% | $43 | 13 |
| Fifth Third Bancorp | FITB | Banking | 13% | $50 | 20 |
| Fuller (H.B.) | FULL | Adhesives | 15% | $45 | 16 |
| Gap (The) | GPS | Retailer | 19% | $32 | 19 |
| General Electric | GE | Diversified manufacturing | 12% | $78 | 15 |
| Gillette | G | Toiletries | 17% | $57 | 27 |
| Glaxo Holdings (ADR) | GLX | Pharmaceuticals | 21% | $27 | 21 |
| GTE | GTE | Long-distance phone serv. | 9% | $34 | 17 |
| Hewlett-Packard | HWP | Computers, printers | 14% | $57 | 15 |
| Hillenbrand Industries | HB | Hospital beds | 15% | $41 | 28 |
| Johnson & Johnson | JNJ | Health care products | 15% | $47 | 20 |
| Kimberly-Clark | KMB | Paper products | 12% | $54 | 16 |
| McDonald's | MCD | Fast food | 13% | $45 | 18 |
| Merck | MRK | Pharmaceuticals | 18% | $44 | 23 |
| Minnesota Mining & Mfg. | MMM | Diversified manufacturing | 10% | $102 | 19 |
| Novell | NOVL | PC networks | 28% | $28 | 37 |
| Pacific Telesis Group | PAC | Local phone service | 7% | $44 | 17 |
| PepsiCo | PEP | Soft drinks, snacks | 17% | $38 | 26 |
| Pfizer | PFE | Pharmaceuticals | 19% | $75 | 33 |
| Philip Morris | MO | Cigarettes, food | 20% | $86 | 18 |
| Policy Management Systems | PMS | Software | 20% | $74 | 31 |
| Procter & Gamble | PG | Detergents, toiletries | 12% | $49 | 19 |
| Student Loan Marketing Assn. | SLM | Student loans | 16% | $71 | 18 |
| Schering-Plough | SGP | Pharmaceuticals | 16% | $56 | 17 |
| Southwestern Bell | SBC | Local phone service | 7% | $67 | 16 |
| Toys "R" Us | TOY | Retailer | 20% | $39 | 32 |
| U.S. Healthcare | USHC | HMOs | 20% | $45 | 28 |
| US West | USW | Local phone service | 6% | $38 | 13 |
| Unilever N.V. | UN | Consumer goods | 12% | $116 | 16 |
| United HealthCare | UNH | HMOs | 34% | $50 | 35 |
| Warner-Lambert | WLA | Pharmaceuticals | 12% | $63 | 14 |
| Waste Management | WMX | Waste disposal | 20% | $36 | 20 |

*Estimates from Institutional Brokers Estimate System, except for Citizens Utilities, Glaxo, Unilever, and United HealthCare (Value Line Investment Survey).

# DON'T BE AFRAID OF REAL ESTATE

Surprise! The investment you thought was dead often produces better returns than stocks.

■ *by Richard D. Hylton*

REAL ESTATE is about as popular as the plague these days, but that doesn't mean you can't profit by investing in it. Some highly promising buys beckon the individual investor looking for high yields and willing to invest a portion of his portfolio in a real estate investment trust, or REIT. Don't expect to double your money in a year. Those days, alas, are gone for now. But you can do reasonably well, earning a hefty yield with the prospect of capital gains down the road. During the first eight months of 1992, REITs delivered a total return of 5.78% and recently were offering a high dividend yield of 8.5%, which looks mighty attractive to investors stewing over the S&P 500's −0.7% return through August.

REITs are publicly traded companies that invest in portfolios of real estate for their shareholders and pay out 95% of their income as dividends (reinvesting the rest); to buy shares, just call your broker. The most popular type is the equity REIT, which owns all or part of its properties and operates them. It is also the best-performing type this year, returning 8.14% through August according to the National Association of REITs, a trade group in Washington, D.C. Mortgage REITs buy housing loans and pass the interest income on to shareholders as dividends. REITs known as hybrids invest in both debt and equity.

Sure, the single-digit REIT returns so far this year are a far cry from the average 35% that equity REITs earned in 1991, but prospects are bright for a couple of reasons. Traditional sources of capital for real estate companies—banks, insurance companies, pension funds, savings and loans—have in many cases hit hard times. That means REITs have a wider choice of the best developers and projects to finance or buy into. In addition, well-managed REITs can buy real estate today at distressed prices, setting the stage for handsome capital gains when markets improve. Among the REITs likely to benefit first from an economic upturn are those that own apartments and shopping malls.

Which is the right REIT for you? Several investment pros favor **Kimco Realty**, a top-notch owner and operator of neighborhood and community shopping centers that was recently yielding about 6.5%. After completing a $128 million initial public offering last November, the company easily sold an additional two million shares this past summer. Although the shares are up over 30% since the November IPO, analysts at Green Street Advisors, a REIT research firm for institutional investors in Newport Beach, California, say the company is still a buy at the recent price of $27.25. "For the little guy I would steer toward the higher end of the quality spectrum," says Mike Kirby, a principal at Green Street Advisors. Kimco, he says, is among the best.

Kirby also likes **Federal Realty**, which upgrades and operates community shopping malls, and **Weingarten Realty**, an operator of shopping malls mainly in and around Houston. Weingarten boasts a strong balance sheet, healthy cash flow, and dividend growth. It also excels at improving the value of newly acquired shopping centers. Kirby and others expect cash flow to continue growing 6% to 8% annually; the shares were recently yielding about 6.2%.

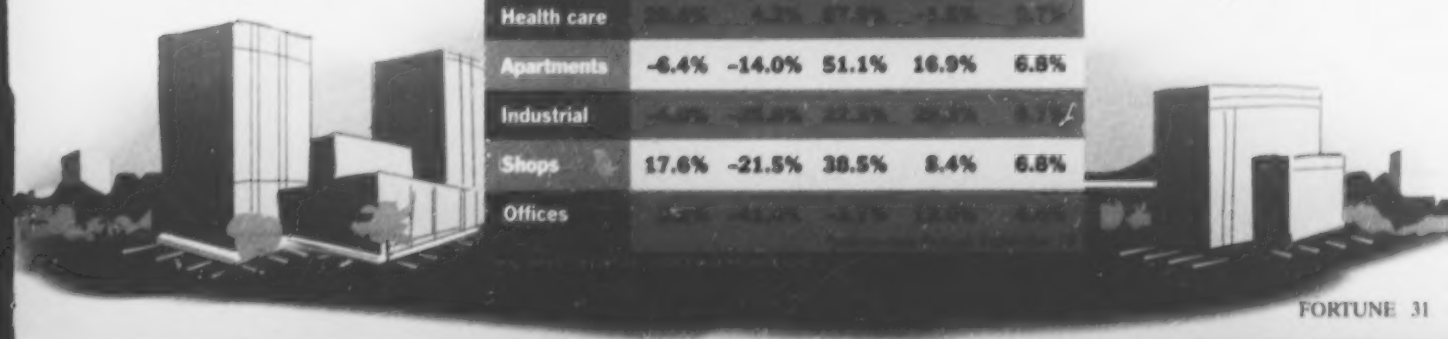
No group of equity REITs has been as hot as the health care sector, which consists of trusts that invest in nursing homes and other health-related properties. **Meditrust**, a hybrid REIT that invests primarily in nursing homes and rehabilitation hospitals, is one of Kirby's top picks for individual investors. It is the largest of the health care REITs, with a diversified portfolio and seasoned management that should increase cash flow at least 5% a year in 1992 and 1993. **Nationwide Health** is also on the buy list. It has been growing quickly, with about $100 million of acquisitions in the past two years, and was recently yielding 7.8%.

Robert Frank, a REIT analyst at Alex. Brown & Sons in Baltimore, recommends **United Dominion Realty Trust**, which owns and operates apartment buildings. Apartment REITs are faring well and should continue to improve cash flow and profits largely because rental apartments will soon be in short supply in many parts of the country. At a recent price of $22.125 United Dominion was yielding 6%. F

## WHERE THE YIELDS ARE

**In these low-interest-rate times, the substantial dividends that many REITs are paying look newly attractive to investors.**

| REITS | TOTAL RETURN TO INVESTORS 1989 | 1990 | 1991 | 1992 | RECENT DIVIDEND YIELD |
|---|---|---|---|---|---|
| Health care | | | | | |
| Apartments | -6.4% | -14.0% | 51.1% | 16.9% | 6.8% |
| Industrial | | | | | |
| Shops | 17.6% | -21.5% | 38.5% | 8.4% | 6.8% |
| Offices | | | | | |



# HOW TO MAKE YOUR MONEY GROW BY 10%

Lower your expectations and roll up your sleeves. To have a spiffy portfolio in the Nineties, you'll need to look into everything from small stocks to foreign bonds. ■ *by Susan E. Kuhn*

YOU HATED the quiche, and the Hermès tie was too expensive anyway. But the 18% average annual return from stocks, the 13% from bonds, the CDs with double-digit yields . . . ah, the Eighties, they weren't so bad after all.

Sorry, investors, they aren't coming back. From now to the year 2000, money managers say, the magic number to shoot for is an earthly 10%. Ten, as in the ten fingers on your two hands. Hold them out, and tell yourself one other thing as you tick off the digits: 10% per year won't come easily. Buying Treasuries alone won't do it for you. Blue-chip stocks offer no guarantees, and cash—well, you've been to the bank, so you know what *that's* worth.

No, to get 10% now you'll have to pick your investments carefully. The perfect portfolio will have to be global in scope, diversified in risk, and eclectic in content. That means looking to the world of small stocks, junk bonds, convertibles, real estate investment trusts, and municipal bonds. It means venturing overseas for crackerjack capital gains in countries where growth is exploding. Do all that, and you may emerge from the Nineties Hermès-less but looking pretty spiffy all the same.

All this sweat for 10%, you ask? Aye, mate—if you're lucky. Historically speaking, the Eighties were such an aberration that the Nineties may have to pay for it. Since 1927, stocks have returned an average of 10% a year and long bonds half that, according to Ibbotson Associates in Chicago. Says Ronald Clarke, who runs $3 billion in domestic equities for Aetna Life & Casualty's investment portfolios: "I'm nervous. We've just finished a decade when stocks returned almost twice their historical average. How do we get back to the trend line? I think the 1990s will be below average for several years; 1991 was a great start, but we'll take some of that back."

Ah yes, 1991. If today's flat stock market and miserly yields sting, think of 1991 as the setup. Last year Standard & Poor's 500-stock index kicked out a 30% return, and 30-year Treasuries punched home 19%. Every spinning top has a final spurt. This one came as interest rates were plunging. The recent 6.3% yield on ten-year Treasuries is the lowest in 20 years, the 2.9% yield on money funds the lowest ever.

Why do low interest rates matter? As any retiree can tell you, they hurt the income stream, half of the total return equation. But even more important, as interest rates approach zero, the potential for impressive capital gains, the other variable, shrinks. In the bond market, where prices go up as interest rates fall, the relationship is easy to see. Notes Robert Beckwitt, portfolio manager of the Fidelity Asset Manager Fund: "It is mathematically impossible for ten-year Treasuries to achieve 10% average annual returns in the next ten years. The coupon would have to fall almost to zero to generate enough capital gains on top of the 6.3% yield. People don't realize it, but there isn't much juice left."

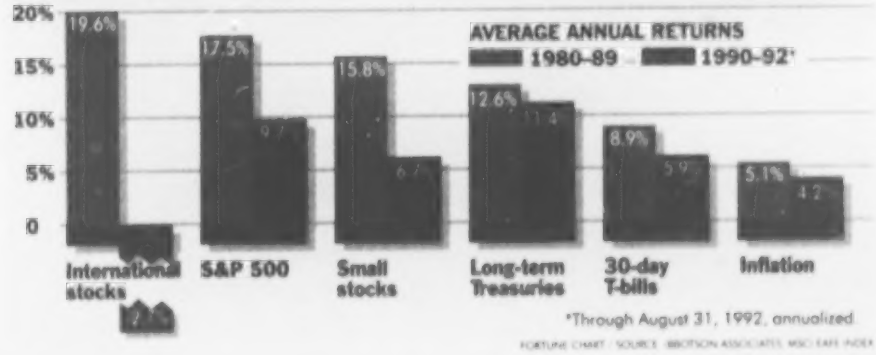
IN THE STOCK MARKET, the relationship between interest rates and prices isn't always so direct. But there's invariably a tradeoff: When interest rates fall, people are willing to pay more for the growth potential of stocks. That means the average price/earnings multiple of the market can expand regardless of earnings expectations. Last year, in fact, the P/E ratio of the S&P 500 rose even more than the drop in earnings would account for—from 15 to 26.

Now the stock market will have to depend heavily on accelerating earnings to eke out gains, since there just isn't room for rates to drop significantly. In a slow-growth decade, that could be hard. Stocks recently sold at 24 times earnings on average, and 30-year Treasuries were yielding 7.4%. According to one commonly used formula, earnings would have to grow more than 15% annually over the next three to five years to push the stock market higher. Wall Street strategists look for 8% average annual gains in corporate earnings between now and 1997, according to the Institutional Brokers Estimate System, which tracks analysts' forecasts. Hmmm. Has anyone considered the possibility of capital *losses*?

Low yields, limited capital gains potential: That's the recipe for tough total returns. How to sweeten the batter? Higher-

REPORTER ASSOCIATES *Justin Martin, John Wyatt*

## MAKING 10% NOW WILL BE TOUGH




FORTUNE CHART / SOURCE: IBBOTSON ASSOCIATES, MSCI EAFE INDEX



ILLUSTRATION BY DICKRAN PALULIAN

yielding investments with above-average growth potential are out there, in many fields. But before you analyze your portfolio stock by bond by stock, step back. Ask yourself: How much of my assets should be in stocks and bonds, period? The answers depend in part upon your age, your needs, and your risk tolerance.

Choosing the percentages of your portfolio to invest in stocks, bonds, and cash—the process called asset allocation—is more critical to investing success than most folks realize. According to Callan Associates, a San Francisco–based investment consulting firm, asset allocation determines 80% of a portfolio's return.

The basic drill is familiar. Because stocks offer long-term growth while bonds give you income, the younger you are the more you should invest in stocks—up to 80% or so of your assets. In retirement, a 60% bond holding may be more prudent. But don't get too conservative too early. Most investors should own more stocks than they do, just to keep ahead of inflation. Says Harry Miller, 58, portfolio manager of the USAA Income Stock Fund: "I'm a firm believer that stocks belong in everyone's portfolio. Bonds that paid 13% a decade ago are coming due and can be reinvested at only 6% to 7%. Retired people have had their investment income cut in half, but their expenses have doubled."

The smartest asset-allocation decision you can make may well be to transfer out of cash. Regardless of your age, most experts say you should keep no more cash on hand than the equivalent of six months' expenses, exclusive of any big upcoming bills, like tuition. Most Americans have far too much in the bank. According to Federal Reserve data, cash recently accounted for $3.4 trillion of individual assets, vs. $2.6 trillion in stocks and $2.4 trillion in bonds.

One immediate cure is to own more stocks. The 1990s, after all, may not be nearly as bad as the 1970s, when stocks returned a miserly 6% per year on average. But even so, 10% returns won't be a shoo-in. Today the dividend yield on the S&P 500 is a paltry 3%, leaving 7% for capital gains to make up. Two obvious choices: Buy a stock with an above-average yield and a history of increasing both dividends and earnings, or buy the stock of a company with superior growth potential.

Miller of USAA knows the first strategy well. His prospectus commits him to provide a yield that exceeds the market by two percentage points. He invests 20% of his assets in utility stocks with high yields but also potential for growth. **Houston Industries**, recently yielding 6.8%, and **Texas Utilities**, at 7.3%, fit the bill. The shares of both companies currently sell at a discount to their peer group, which is yielding 6.2% on average. However, both companies are just beginning to get revenues from recently completed plants, which has increased their cash flow. As the spigot opens, dividends and stock prices should increase.

Houston Industries should flow first; it just raised its dividend for the first time since 1988. In addition, 5% of its revenues come from cable television, a venture expected to add to cash flow in 1994 and to profits in 1995. USAA utility analyst Lon West expects Houston to increase its dividend 10 cents, to $3.10, and yield 6.2%, about average for the industry, within the next two years. That would boost the stock price to $50 from the recent $44, assuming no change in the market multiple. Average annual return: 13%.

AT THE OTHER END of the spectrum are aggressively expanding young niche companies. They have small market capitalizations and volatile stock prices. Since 1927 their average annual return has been 12%, vs. 10% for the big stocks in the S&P 500. In the slow-growth, low-inflation economy that many foresee for the 1990s, small companies with clear niches can jam.

Beth Cotner, an equity fund manager at Kemper Financial Services, thinks health care companies that focus on cost containment and companies in the gambling business are two groups where earnings can expand rapidly. For example, she cites **Foundation Health**, a California HMO that

## BITTE, SPRECHEN SIE DEUTSCH?

Germany's bonds are as boffo as its beer.

Would you put $4 billion into foreign bonds right now, what with all the turmoil over interest rates and currencies in Europe? Only if you want to make money, says Gary Brinson of Brinson Partners in Chicago, who manages a total of $23 billion for big pension funds and endowments. Since last spring, he has doubled the foreign-bond weighting in all his global portfolios, including one that has returned 18% on average annually over the past ten years.

Says Brinson: "We're very bullish on foreign bonds. There is almost an unprecedented gap between rates in Europe and the U.S. Into 1993, in our view, that will shift, and European rates will come down powerfully." How much? Americans who invest with him should expect 10% to 12% returns. What countries catch his eye? Germany, France, and the Netherlands. Their ten-year bonds are moderately priced, at a 7.5% yield for Germany and 8.5% or so for France and the Netherlands. Comparable ten-year U.S. Treasuries pay only 6.3%. Spain, with ten-year bonds that yield over 12%, is also gaining favor. It has one of the highest growth rates in Europe. All European currencies continue to be volatile, which is why Brinson will stay hedged. He thinks long bond rates in Germany could fall as low as 6% soon, which would push bond prices up more than 10%.

To bet alongside Brinson, you'll need to pony up a minimum of $100,000 for his spanking-new no-load **Brinson Global Fund**, started September 1. For the less well endowed, with $1,000 or so to invest, there are plenty of international bond funds available. Our list of the best mutual funds to buy (see "The Best Mutual Funds") is topped by **Scudder International Bond Fund**. Its manager, F. Mark Turner, is another Euro fan and a fairly consistent hedger.

# ALADDIN'S CONVERTIBLE LAMP

With Treasury bonds pay 7% or so, but they don't offer much in the way of capital gains. Stocks are better growth bets, but dividends average a miserable 3%. Yuck. Is there a way to bet on a turnaround stock and get a decent yield? Rub the magic lamp, Aladdin. The genie says, Buy a convertible security.

Eric Ryback's income fund, the **Lindner Dividend Fund**, has consistently conjured up the riches of Araby by betting heavily on these hybrids. Recently 25% of his $400 million in assets was in convertibles. Over the past ten years his fund has returned an average of 18% per year. Last year investors took home 24%.

Ryback's strategy gives investors much of that return in the form of a glorious yield, currently 8%. The rest comes from patiently waiting for capital gains. He does it with convertible bonds like the 8.5% obligations of **Ceridian Corp.**, due in 2011 and recently yielding 9.3%. The bonds are callable in a year at a 3% premium, but because they have been selling at a discount, Ryback expects he'll earn his coupon for quite some time. The bond can be converted profitably into common stock when the share price hits $27; it traded recently at just $14.

Ceridian is the former computer software services arm of Control Data. Among its businesses: payroll processing—it prints one of every five paychecks in America—and Arbitron Co., which collects data on radio and TV audiences. Despite the low stock price, Ryback insists, "this is certainly an equity play. Ceridian is in the right businesses for the 1990s, and all its divisions are cash-flow positive. The bonds have already moved up, from 80 cents on the dollar to 91 cents. I expect that to continue." Even a smidgen more appreciation would get you to that magic 10%.

**Ceridian prints checks and mints money.**

should see earnings increase more than 20% per year through 1997. The stock, recently $35 a share, trades at 14 times 1993 earnings, a 19% discount to the market. It should reach the market multiple within a year, says Cotner, for a 23% gain. Foundation has an edge: The company has a government contract to serve 860,000 military retirees, a large customer base that gives it muscle to negotiate cheaper rates for hospital care and doctors' services.

Sometimes small stocks are undervalued simply because they are underfollowed by analysts. An example: **Gtech**, a newly public company that operates lotteries worldwide. Cotner looks for earnings to double this year, rise more than 40% in 1993, and thereafter expand at a 30% annual rate. Gtech has dozens of long-term contracts with states and countries and is using that clout to add new business rapidly. It just signed on to run the Texas state lottery, which should become the largest in the country at $3 billion a year. Gtech gets a 4% cut. It is also expanding overseas, most recently to Czechoslovakia. At $26, the stock recently sold for 18 times 1993 earnings, but given its growth rate, Cotner says, it should command a multiple of at least 25. Her target price for the stock in the next 12 months: $35, for a 35% return.

In the center of your stock basket, between the go-go small stocks and the steady income producers, will undoubtedly sit a handful of well-known winners with staying power. They'll share several characteristics in tune with the 1990s—primarily a lean balance sheet, solid management, and exposure to expanding markets overseas. John Snyder, portfolio manager of the John Hancock Sovereign Investors Fund, thinks **PepsiCo**, **Sara Lee**, **Johnson & Johnson**, and **American International Group** are prime examples of fat-free enterprises with a commanding global presence. Snyder thinks all four can increase both dividends and earnings at least 12% to 15% a year throughout the 1990s.

But heck, if Sara Lee is going to beef up revenues by selling bagels in Brisbane, why shouldn't you dabble abroad as well? Instead of staring at a pricey stock market and a sluggish economy, why not take a trip where stock markets are cheap and economies vigorous? Says Fidelity's Beckwitt: "The most tremendous opportunities investors can find are overseas. Mexico, for example, has completely turned around, and the stock market sells at a reasonable P/E ratio of 11. They've got Harvard and Yale Ph.D.s running the country like a company. **Teléfonos de México** and **Grupo Financiero Bancomer** look like Philip Morris and Fannie Mae five years ago. You can easily earn 15% returns per year."

INVESTING internationally now is the perfect way to try buying low and selling high. Morgan Stanley Capital International's Europe, Australia, and Far East index (EAFE) has performed miserably since 1988, losing an average of 5% per year, vs. a 23% average annual return for the S&P 500. Oh, sure, you say. But what if we've hit bottom? From 1983 through 1988, when EAFE stocks consistently *beat* their U.S. brethren, international investors lapped up a 33% average annual return, twice that of the S&P 500.

These EAFE index returns are denominated in U.S. dollars. Investing internationally always adds an extra element of risk: The foreign currency can depreciate against the dollar. In Canada, and now also in Mexico, the risk is moderated because the local currency fluctuates pretty much as the U.S. dollar does. In Europe, however, the risk is more pronounced. Many money managers expect the deutsche mark to fall as much as 15% against the dollar in the next year, so they have hedged their portfolios by selling currency futures contracts.

The easiest way to invest in foreign stocks is through a mutual fund. Many mutual fund managers hedge their portfolios to reduce the currency risk. You can also buy American Depositary Receipts, or ADRs, which are shares of foreign companies that trade on an American exchange. (For more, see "Go Abroad for Bigger Returns.")

Don't limit your overseas investments to stocks. Foreign bonds are mighty tempting too. As soon as Germany wrestles inflation lower, managers expect European interest rates to tumble, generating double-digit capital gains. Even allowing for the cost of a currency hedge, 10% to 12% returns are likely (see box, "Bitte, Sprechen Sie Deutsch?"). Says Theresa Havell, director of fixed-income investments at Neuberger &

Berman: "The biggest change investors will face in the 1990s is the rising importance of looking globally. Global bonds offer moderate risk, somewhere between domestic stocks and bonds. They have very attractive real rates of return." There's an emerging markets play too: Mexican treasury bills, for example, pay 19%.

Investing in any one of the roughly 50 international bond funds offers the easiest entry to the market. An alternative: funds that maintain a constant percentage of assets in foreign bonds. Paul Suckow, Oppenheimer Management's director of fixed income, divides the $1.7 billion **Oppenheimer Strategic Income** fund evenly among U.S. government bonds, junk, and foreign bonds. Last year investors took home 16%.

In America, the only straight bonds with any hope of 10% returns are riskier junk bonds. But there's good news from this war-torn front: The junk market is pretty healthy. Low interest rates and a rash of new equity offerings have allowed many companies to clean up their balance sheets. Defaults are fewer. In both 1990 and 1991, they ranged between $17 billion and $18 billion; analysts predict that junk defaults will not exceed $10 billion this year. Supply has increased just in time for a yield-hungry market. Through August, $32 billion of new junk issues came to market, putting 1992 ahead of the $30 billion record set in 1986.

After experiencing near death in 1990, junk bonds have had a tremendous rally—up 59% in total return on average in 1991 and about 16% so far this year. Falling interest rates and a recovering economy have added a stocklike kick to the securities because the bonds are so dependent upon cash flow. "In junk, all the company needs is enough c flow to make the interest payments," plains Kingman Penniman, head of ju bond coverage at Duff & Phelps/MCM vestment Research in Montpelier, Verm By contrast, he says, "in the equity mark the P/E is high and everyone's asking, W the earnings come through?"

While the economy muddles along, c servative investors should plan to earn t 10% to 12% coupons from junk bo through a mutual fund. Individual junk sues can be tough to analyze and buy, they are often callable within five years. H ry Resis, director of high-yield trading Kemper Financial Services, is finding ple of bargains, including the 11.125% bond **Rogers Cantel Mobile Communicatio** due in 2002. The B-rated bonds rece yielded just over 10% to their 1999 call d The company, a subsidiary of Rogers C munications, is the only coast-to-coast ce lar operator in Canada, with 46% of the m ket. It has already completed most of capital expenditure programs, and it's gr ing rapidly. Resis says, "In four to five ye the senior debt of this company could come an investment-grade credit. T would add substantial price appreciation returns could be better than 15% per ye

JUNK BONDS are but one of a bate securities that share a dual nature: T have the appreciation potential of e ties but are yield-oriented like bo Convertible preferred stocks, convert bonds, and real estate investment trusts al fer the potent combination of high yields potential for capital gains, which makes t ideal scouting grounds for 10% returns.

Convertibles have proved their worth the past 12 months. The average convert fund returned 12.3%, vs. 5.6% for the a age stock fund and 11.9% for bond fu Convertibles come in two varieties—p ferred stocks and bonds, both of which c vert into common shares. Both yield slig less than straight bonds and move with common shares. The conversion beco profitable only after the common stock appreciated a set amount. On average, c verts recently paid 6.5%, more than tw the stock market's yield (see box, "Alad Convertible Lamp").

Real estate investment trusts, or RE also trade as stocks and pay bondlike yi REITs typically own or operate real esta apartments, shopping centers, warehous and pass along the rental income to in tors. REITs are required to pay out 95%

## THANK YOU, UNCLE SAM

Wisconsin gets housing; you get tax credits.

10 Sometimes the best way to earn 10% is to save 10% of your income from the clutches of the IRS. Not through some tax-shelter scheme, mind you, but directly, with a bona fide tax credit.

That's the idea behind one type of real estate limited partnership that buys or builds properties, often in the suburbs, and then rents them to low- and middle-income tenants. Once the properties are occupied, investors get a steady stream of tax credits over ten years. The credits allowed each year equal about 15% of your investment. Over the life of the investment, however, that 15% annual "return" is more likely to average 12%—still very respectable. The actual life of your investment will likely be closer to 15 years, as it takes time to rent the properties at the start and sell them at the end. That 12% takes such wrinkles into account and assumes the properties will be sold at cost; any gain would sweeten your return. Even if the properties are worthless, you've already got the tax savings in your wallet, and with the write-off your annual return would still average around 10%.

Boston Capital Partners, Related Capital, and Boston Financial Group are the largest sponsors of these plans. **Boston Capital Tax Credit Fund III** and **Boston Financial Tax Credit Fund Plus** are sold through several brokerage firms, while Related's **Independence Tax Credit Plus** is primarily available through Shearson and IDS. All the plans are open to investors who meet modest income and net worth requirements. Minimum investment: $5,000. There's also a recommended maximum of $50,000. That's because investors in the 31% federal bracket and up are allowed to use only $7,750 in tax credits per year. Uncle Sam's generosity has its limits, you know.

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their operating income as a cash distribution. Because REIT managers avoided buying new properties and office real estate, they are stuck with few non-income-producing turkeys—unlike a lot of insurance companies and pension funds. REIT managers are practically the only healthy buyers of real estate around. They are paying bargain basement prices at a time when the cost of money is very low. On average, REITs recently paid out 7.8% in yield (for more on REITs, see "Don't Be Afraid of Real Estate").

STOCKS, BONDS, real estate ... Sounds good, you say, rolling up your sleeves. But taxes already can eat up much of your gains, and Bill Clinton has said he will raise them if elected. President Bush says he won't, but then press secretary Marlin Fitzwater says that's not a pledge. Many states desperate for revenues are increasing taxes too. In California, the top income tax rate is 11%, up from 9.3% a year ago. Well-off investors there, and in New York City, which has a local income tax, can fork over 40% or more of their taxable take. The answer, of course, is to own some municipal bonds. Long-term munis today pay out an average yield of 6.3%, or 85% of the yield on long-term Treasuries. For investors in the top federal tax bracket of 31%, that's a taxable equivalent yield of 9%. Throw in some state taxes, and you've easily reached the 10% goal.

Mutual funds like Dreyfus's **General Municipal Bond** fund, which has returned an average of 11% a year to investors since 1989, offer the easiest way of investing in munis. Investors with at least $50,000 to put into municipals can set up their own portfolios. Richard Ciccarone, director of tax-exempt fixed-income research at Kemper Securities, recently recommended that investors put as much as 20% of their muni portfolio into the bonds of large suburban hospitals. In the health care crisis, Ciccarone observes, the strong are getting stronger at the expense of the weak. Hospitals with a dominant market share should maintain operating margins, so Ciccarone says their bonds will outyield other municipal alternatives.

Currently, A-rated 30-year hospitals pay an average of 6.6%. The higher-rated AA bonds of **Kaiser Permanente** due in 2021 pay 6.3%; they are a Ciccarone favorite. The hospital chain, the dominant care provider in Oakland, operates as an HMO and has relatively little debt. A healthy hospital for a healthy portfolio? In the 1990s that's a 10% prescription too good to pass up.

# THE BEST MUTUAL FUNDS

It would be hard to go wrong with these 110 winners. Over the past three years they performe splendidly—even after managers, brokers, and the IRS took their due. ■ *by Susan E. Kuh*

ARE YOU READY to move out in front of the pack? You can. Simply by buying any of the funds on our winners list, you'll be putting your money with managers who have a proven ability to excel. With the help of Morningstar, a mutual fund rating service in Chicago, we've plucked out the top-performing funds in each of 14 categories. Within stock, hybrid, and bond fund groupings, we've turned up the best of everything, from aggressive growth funds to global bond funds.

Our rankings are very different from the others that you'll see. We've looked at average annual returns *after* all expenses, sales loads, and taxes have been taken out. We want to show what you actually-pocket by investing in these funds. Our tax calculation, for example, takes into account the federal taxes you would have to pay on all income and capital gains distributions, assuming a 28% rate. A fund manager who trades frequently will generate more taxable distributions for you than one who doesn't. Since taxes detract from your final return, we subtract them from each fund's performance. We've even added a column breaking out just what the IRS would claim.

The sales loads and annual expenses, which we call fees, are also listed. Annual expenses cover the operating costs of the funds. By SEC regulation, any advertised return must subtract this operating fee. A sales load is the commission paid to brokers or direct marketers who sell the fund. Funds don't subtract that from their reported results, but we do. Frequently brokers receive their commission when a fund is first sold. Alternatively, brokers can claim redemption fees or back-end loads that are taken when the investor withdraws money from a fund. Back-end loads usually decline over time to encourage you to stay in the fund longer. In our calculation, we assumed that back-end loads decline one percentage point every year.

A bite here, a bite there. It all adds u After all taxes and expenses, even some the best-performing stock funds failed beat the 8.16% annual after-tax return the Standard & Poor's 500-stock index ov the past three years. But most did. **Sel man Capital**, one of the top-performing a gressive growth funds, managed an 11.3 average annual three-ye return. That's what it paid ter subtracting 2.7% for t es and 1.7% for a load. Ima ine if its starting returns h been just 7.7%—the avera for aggressive growth fun Your average annual thre year return would have be 3.3%, not much more th you could have made in savings account.

The best fund overall w the growth fund **MIM Sto Appreciation**, with a 19% average annual return ov three years. Although it c ries a handicap of high annu expenses—2.9% of assets—doesn't charge a load. A because it focuses on capi gains rather than income, paid out only 1.4 percenta points of return in taxes. A category, small-stock fun have lots of double-digit turns, led by **MFS Lifeti Emerging Growth**'s 18.2 average annual return. M is a winner despite a 6% bac end load and high 2.3% ann al expenses.

Because overall retur

ILLUSTRATIONS BY JIM McMAN

are likely to be lower in the slow-growth Nineties than in the go-go Eighties, it's crucial to keep expenses of all kinds minimal. Paul Disdier, manager of Dreyfus's **General Municipal Bond** fund, would be a Scrooge's delight. With no sales load, a bare 0.01% expense ratio, and so little trading that taxes took only 0.1%, he returned a sweet 11.1% on average. Although it is hard to predict how much you'll lose to taxes, there are a few clues to look for. Yield-oriented funds tend to produce the highest taxable income. If you need the money, that's fine. If not, invest in a growth fund that seeks out capital appreciation and not dividends.

Turnover measures how frequently securities are bought and sold, a process that generates lots of commissions and exposes you to potential capital gains taxes. By law, funds must pay out all of their realized capital gains, net of any losses. The higher a manager's turnover, the more likely he is to be paying out gains, and the more likely you are to be stuck paying taxes. A better strategy is to select a fund where the manager buys and sells infrequently, allowing his unrealized gains to grow while minimizing the tax bite for you. A turnover of 100% means that a manager's trading volume in one year equals 100% of his assets. Last year the average equity fund turned over 90% of its assets and the average taxable bond fund turned over 125%.

**A high turnover usually means higher taxes for you.**

Our list excludes funds that are closed or that are not available to investors in a majority of states. In the interest of diversity, we've also excluded funds that limit their holdings to any one industry sector, state, or foreign country. And perhaps most important, we've excluded any fund that changed its manager—or entire team of managers—during the three-year period. Now, get to it.

REPORTER ASSOCIATE *Rosalind Klein Berlin*

## THE TOP FUNDS BY CATEGORY

| MUTUAL FUND<br>TELEPHONE | AVG. ANNUAL RETURN (tax and load adjusted) 3 yrs. | 1 yr. | PERCENTAGE LOST FROM TAXES 3 yrs. | 1 yr. | FEES Sales load | Annual expenses | TURNOVER | ASSETS 6/30/92 in millions | MANAGER |
|---|---|---|---|---|---|---|---|---|---|
| **STOCK FUNDS** | | | | | | | | | |
| **AGGRESSIVE GROWTH** GROUP AVERAGE[1] | 6.3% | -2.1% | | | | | | | |
| **Wasatch Aggressive Equity** 800-551-1700 | 14.8% | 2.4% | 0.6% | 1.4% | None | 1.91% | 41% | $12 | Samuel Stewart |
| **Enterprise Capital Appreciation** 800-432-4320 | 14.3% | 9.1% | 0.4% | 0.0% | 4.75% | 1.75% | 40% | $50 | Jeffrey J. Miller |
| **Kaufmann** 800-237-0132 | 12.8% | 4.7% | 0.4% | 1.0% | 0.20%[2] | 3.64% | 128% | $174 | L. Auriana, H. P. Utsch |
| **Thomson Opportunity B** 800-227-7337 | 12.3% | 12.6% | 2.5% | 3.0% | 1.00%[2] | 1.90% | 145% | $140 | Dan Chibouras |
| **Seligman Capital** 800-221-2783 | 11.3% | 1.9% | 2.7% | 4.2% | 4.75% | 1.01% | 42% | $166 | Lore D. Mozzon |
| **Piper Jaffray Sector Performance** 800-866-7778 | 10.3% | 1.4% | 0.5% | 0.1% | 4.00% | 1.32% | 507% | $9 | Edward P. Nicoski |
| **AIM Constellation** 800-347-4246 | 10.3% | 2.7% | 1.9% | 0.5% | 5.50% | 1.20% | 109% | $787 | H. Hutzler, J. Schoolar |
| **Princor Emerging Growth** 800-451-5447 | 9.9% | 6.5% | 0.9% | 1.0% | 5.00% | 1.61% | 5% | $26 | Michael R. Hamilton |
| **ABT Emerging Growth** 800-289-2281 | 8.3% | 1.4% | 4.5% | 5.7% | 4.75% | 1.59% | 108% | $26 | Harold J. Ireland Jr. |
| **Dreyfus Capital Growth** 800-645-6561 | 7.4% | 3.9% | 2.0% | 3.0% | 3.00% | 1.14% | 81% | $504 | Howard Stein |
| **GROWTH** GROUP AVERAGE[1] | 4.5% | 0.7% | | | | | | | |
| **PBHG Stock Appreciation** 800-233-1240 | 19.9% | 8.8% | 1.4% | 3.6% | None | 2.90% | 240% | $25 | Arthur J. Bonnel |
| **Berger 100** 800-333-1001 | 16.0% | 5.3% | 2.3% | 0.4% | None | 2.24% | 78% | $358 | W. Berger, R. Linafelter |
| **Monetta** 800-666-3882 | 15.5% | 6.0% | 2.4% | 2.5% | None | 1.42% | 154% | $231 | Robert S. Bacarella |
| **Vanguard World U.S. Growth** 800-992-0414 | 14.9% | 8.4% | 0.5% | 0.4% | None | 0.61% | 69% | $1,276 | P. Hall, D. Fowler |
| **Janus Twenty** 800-525-8983 | 14.8% | 6.3% | 0.7% | 0.5% | None | 1.01% | 83% | $2,117 | Thomas F. Marsico |
| **Steinroe Stock** 800-338-2550 | 13.8% | 7.8% | 1.5% | 1.7% | None | 0.92% | 34% | $328 | Multiple managers |
| **Princor Growth** 800-451-5447 | 12.3% | 7.5% | 1.2% | 1.2% | 5.00% | 1.07% | 14% | $56 | Michael R. Hamilton |
| **Fidelity Disciplined Equity** 800-544-8888 | 11.7% | 12.3% | 1.5% | 3.1% | 0.50%[2] | 1.18% | 286% | $245 | Brad Lewis |
| **Twentieth Cent. Growth Investors** 800-345-2021 | 11.6% | 8.1% | 1.1% | 0.0% | None | 1.00% | 31% | $4,084 | Multiple managers |
| **Wasatch Growth** 800-551-1700 | 11.5% | 2.7% | 1.6% | 1.6% | None | 1.51% | 37% | $14 | Jeff Cardon |
| **GROWTH AND INCOME** GROUP AVERAGE[1] | 4.3% | 2.6% | | | | | | | |
| **Berger 101** 800-333-1001 | 13.0% | 9.2% | 1.4% | 3.1% | None | 2.66% | 143% | $26 | W. Berger, R. Linafelter |
| **MAS Pooled Select Equity** 800-354-8185 | 11.0% | 9.9% | 1.0% | 1.0% | None | 0.60% | 29% | $204 | Multiple managers |
| **Franklin Rising Dividends** 800-342-5236 | 9.8% | 4.8% | 0.8% | 0.6% | 4.00% | 1.53% | 17% | $99 | Lippman, Boughman |
| **MAS Pooled Equity** 800-354-8185 | 9.6% | 6.7% | 1.6% | 1.5% | None | 0.60% | 33% | $897 | Multiple managers |
| **Gateway Index Plus** 800-354-6339 | 9.6% | 7.4% | 3.2% | 1.6% | None | 1.13% | 24% | $129 | Peter Thaver |
| **Dreman High Return** 800-533-1608 | 9.2% | 6.2% | 2.3% | 1.2% | None | 1.25% | 37% | $11 | David N. Dreman |
| **AIM Charter** 800-347-4246 | 9.1% | 3.7% | 2.2% | 1.4% | 5.50% | 1.15% | 144% | $1,058 | J. A. Lerner, L. Sachnowitz |

*Performance is through August 1992 and net of annual expenses, brokerage costs, and sales loads, also net of taxes, assuming a 28% rate for capital gains and income distributions. [1]Percent of portfolio assets that were bought or sold over the past year. [2]Average annual return for all funds tracked by Morningstar in each category. [3]Redemption fee.*

STOCK FUNDS

| MUTUAL FUND<br>TELEPHONE | AVG. ANNUAL RETURN (tax and load adjusted) 3 yrs. | 1 yr. | PERCENTAGE LOST FROM TAXES 3 yrs. | 1 yr. | FEES Sales load | Annual expenses | TURN-OVER[2] | ASSETS 6/30/92 in millions | MANAGER |
|---|---|---|---|---|---|---|---|---|---|
| **GROWTH AND INCOME CONT'D** | | | | | | | | | |
| **SteinRoe Prime Equities** 800-338-2550 | **8.7%** | 9.3% | **1.3%** | 1.3% | None | 1.00% | **48%** | **$64** | Ralph Segall |
| **John Hancock Sovereign Inv.** 800-225-5291 | **8.5%** | 2.2% | **2.8%** | 2.4% | 5.00% | 1.18% | **67%** | **$482** | Multiple managers |
| **MainStay Value** 800-522-4202 | **8.1%** | 6.2% | **2.1%** | 3.0% | 5.00%[4] | 1.90% | **150%** | **$72** | D. LaPlaige, T. Kolefas |
| **EQUITY INCOME** GROUP AVERAGE[3] | **4.1%** | **5.2%** | | | | | | | |
| **Capital Income Builder** 800-421-0180 | **10.2%** | 9.3% | **1.8%** | 2.2% | 5.75% | 0.98% | **14%** | **$926** | Multiple managers |
| **Kidder Peabody Equity Income** 800-238-7753 | **10.0%** | 0.3% | **0.7%** | 0.3% | 5.75% | 1.37% | **67%** | **$146** | John D. Chadwick |
| **Financial Industrial Income** 800-525-8085 | **9.6%** | 2.6% | **2.9%** | 1.9% | None | 0.94% | **104%** | **$2,093** | J. Kaweske, P. Dubuque |
| **Stratton Monthly Div. Shares** 800-634-5726 | **8.6%** | 15.5% | **2.5%** | 2.3% | None | 1.15% | **41%** | **$62** | James W. Stratton |
| **USAA Income Stock** 800-531-8181 | **8.4%** | 12.7% | **2.2%** | 1.7% | None | 0.77% | **27%** | **$384** | Harry W. Miller |
| **Shearson Premium Total Return** 212-464-8068 | **7.6%** | 4.2% | **2.7%** | 2.5% | 5.00%[4] | 1.70% | **43%** | **$553** | J. Fullerton, P. Zuch |
| **SteinRoe Total Return** 800-338-2550 | **7.5%** | 8.3% | **2.4%** | 2.3% | None | 0.84% | **71%** | **$166** | Robert A. Christensen |
| **Dean Witter Equity Income** 800-869-3863 | **6.3%** | 2.7% | **3.0%** | 3.6% | 5.00%[4] | 2.13% | **131%** | **$140** | Ken Hinchliffe |
| **Parkstone High-Income Equity** 800-451-8377 | **5.7%** | 0.7% | **1.8%** | 2.0% | 4.50% | 1.18% | **116%** | **$271** | Roger H. Stamper |
| **Helmsman Inc. Eq. Inv. Shares** 800-338-4345 | **5.7%** | 1.7% | **1.4%** | 1.1% | 5.50% | 0.30% | **9%** | **$118** | Ralph F. Patek |
| **SMALL COMPANY** GROUP AVERAGE[3] | **5.4%** | **1.6%** | | | | | | | |
| **MFS Lifetime Emerging Growth** 800-225-2606 | **18.2%** | 9.3% | **0.5%** | 1.4% | 6.00%[4] | 2.28% | **112%** | **$255** | John W. Ballen |
| **Twentieth Century Ultra Investors** 800-345-2021 | **15.7%** | -1.7% | **1.3%** | 0.0% | None | 1.00% | **39%** | **$3,754** | Multiple managers |
| **United New Concepts** 800-366-5465 | **14.8%** | -1.5% | **0.6%** | 0.1% | 8.50% | 1.23% | **74%** | **$159** | Mark G. Seferovich |
| **Robertson Stephens Emerg. Gr.** 800-766-3863 | **13.5%** | -9.8% | **2.8%** | 1.4% | None | 1.59% | **147%** | **$198** | Robert C. Czepiel |
| **John Hancock Special Equities** 800-225-5291 | **12.7%** | 5.3% | **0.7%** | 1.9% | 5.00% | 2.14% | **163%** | **$34** | Michael P. DiCarlo |
| **Oberweis Emerging Growth** 800-323-6166 | **12.6%** | -4.4% | **2.1%** | 5.3% | None | 2.13% | **114%** | **$33** | James Oberweis |
| **Transamerica Spec. Emerg. Grth.** 800-343-6840 | **12.0%** | -5.2% | **0.2%** | 0.1% | 6.00%[4] | 2.85% | **66%** | **$71** | Edgar H. Larsen |
| **FAM Value** 800-932-3271 | **11.8%** | 6.6% | **0.7%** | 1.7% | 5.00%[4] | 1.49% | **14%** | **$22** | T. Putnam, D. Van Buren |
| **Skyline Special Equities** 800-458-5222 | **11.5%** | 15.2% | **3.0%** | 5.7% | None | 1.55% | **104%** | **$57** | Bill Dutton |
| **Meridian** 800-446-6662 | **11.3%** | 11.1% | **2.6%** | 2.9% | None | 1.90% | **77%** | **$18** | Richard F. Aster Jr. |
| **INTERNATIONAL** GROUP AVERAGE[3] | **-0.5%** | **-0.3%** | | | | | | | |
| **Smith Barney Intl. Equity** 800-544-7835 | **6.7%** | -3.5% | **1.4%** | 3.0% | 4.50% | 2.88% | **67%** | **$122** | Multiple managers |
| **EuroPacific Growth** 800-421-0180 | **6.4%** | 3.3% | **1.1%** | 0.5% | 5.75% | 1.24% | **10%** | **$2,266** | Multiple managers |
| **Warburg Pincus Intl. Equity** 800-888-6878 | **6.2%** | -0.9% | **0.7%** | 0.6% | None | 1.50% | **33%** | **$121** | Richard H. King |
| **Babson-Stewart Ivory Intl.** 800-422-2766 | **6.1%** | 13.5% | **0.4%** | 0.3% | None | 1.75% | **52%** | **$18** | John G.L. Wright |
| **Harbor International** 800-422-1050 | **5.8%** | 3.2% | **1.1%** | 0.4% | None | 1.23% | **29%** | **$614** | Hakan Castegren |
| **Templeton Foreign** 800-237-0738 | **5.1%** | 0.0% | **2.3%** | 2.4% | 5.75% | 0.88% | **19%** | **$1,649** | Mark G. Holowesko |
| **USAA International** 800-531-8181 | **5.0%** | 10.0% | **0.6%** | 0.2% | None | 1.74% | **64%** | **$39** | David G. Peebles |
| **Fidelity Intl. Growth & Income** 800-544-8888 | **3.9%** | 3.5% | **0.6%** | 0.4% | 2.00% | 1.77% | **77%** | **$66** | John R. Hickling |
| **MAS Pooled International Equity** 800-354-8185 | **3.0%** | 3.2% | **1.1%** | 1.5% | None | 0.67% | **51%** | **$480** | Multiple managers |
| **T. Rowe Price Intl. Stock** 800-638-5660 | **3.0%** | 2.6% | **1.9%** | 1.9% | None | 1.10% | **45%** | **$1,863** | Martin G. Wade |
| **GLOBAL** GROUP AVERAGE[3] | **-0.1%** | **-1.1%** | | | | | | | |
| **Dreyfus Strategic World Inv.** 800-782-6620 | **8.5%** | 2.1% | **0.0%** | 0.0% | 3.00% | 1.62% | **420%** | **$85** | Fiona Biggs |
| **New Perspective** 800-421-0180 | **4.8%** | 1.8% | **2.1%** | 1.1% | 5.75% | 0.86% | **8%** | **$2,920** | Multiple managers |
| **Oppenheimer Global** 800-525-7048 | **4.5%** | -2.8% | **1.9%** | 0.6% | 5.75% | 1.35% | **20%** | **$1,260** | Kenneth J. Oberman |
| **Scudder Global** 800-225-2470 | **4.2%** | 6.7% | **1.3%** | 1.5% | None | 1.62% | **41%** | **$371** | William E. Holzer |
| **Bull & Bear U.S. and Overseas** 800-847-4200 | **3.6%** | -0.9% | **1.7%** | 3.0% | None | 3.56% | **208%** | **$11** | Robert W. Radsch |
| **Templeton Growth** 800-237-0738 | **2.8%** | -0.1% | **2.6%** | 3.2% | 5.75% | 0.82% | **30%** | **$3,332** | Mark G. Holowesko |
| **G.T. Worldwide Growth** 800-824-1580 | **2.7%** | -3.9% | **0.5%** | 0.3% | 4.75% | 2.00% | **122%** | **$146** | C. Wignall, S. Betterton |
| **Paine Webber Gl. Grth. & Inc. A** 800-647-1568 | **1.5%** | 0.4% | **2.4%** | 1.2% | 4.50% | 1.75% | **65%** | **$73** | Nimrod Fachler |
| **Putnam Global Growth A** 800-225-1581 | **1.2%** | -3.2% | **1.4%** | 1.1% | 5.75% | 1.47% | **71%** | **$670** | Anthony W. Regan |
| **Merrill Lynch International B** 800-637-3863 | **1.1%** | 0.3% | **1.3%** | 0.6% | 4.00%[4] | 2.51% | **64%** | **$24** | Frederick Ives |

[1]Performance is through August 1992 and net of annual expenses, brokerage costs, and sales loads, also net of taxes, assuming a 28% rate for capital gains and income distributions. [2]Percent of portfolio assets that were bought or sold over the past year. [3]Average annual return for all funds tracked by Morningstar in each category. [4]Deferred sales charge, which declines over time.

| MUTUAL FUND<br>TELEPHONE | AVG. ANNUAL RETURN tax and load adjusted 3 yrs. | 1 yr. | PERCENTAGE LOST FROM TAXES 3 yrs. | 1 yr. | FEES Sales load | Annual expenses | TURN-OVER[1] | ASSETS 6/30/92 in millions | MANAGER |
|---|---|---|---|---|---|---|---|---|---|
| **HYBRIDS** | | | | | | | | | |
| **BALANCED** GROUP AVERAGE[3] | **8.4%** | **4.1%** | | | | | | | |
| **Twentieth Cent. Bal. Investors** 800-345-2021 | **11.2%** | 6.2% | **1.2%** | 0.6% | None | 1.00% | **69%** | **$560** | Multiple managers |
| **Kemper Invest. Port. Total Ret.** 800-621-1048 | **10.3%** | 6.6% | **1.3%** | 1.4% | 3.00%[4] | 2.11% | **121%** | **$931** | C. Beth Cotner |
| **Pasadena Balanced Return** 800-533-8636 | **9.3%** | 1.7% | **1.0%** | 0.4% | 5.50% | 2.50% | **5%** | **$29** | Roger Engemann |
| **Pax World** 800-767-1729 | **9.2%** | -0.6% | **2.9%** | 3.4% | None | 1.20% | **26%** | **$369** | Anthony S. Brown |
| **Fidelity Balanced** 800-544-8888 | **8.9%** | 10.1% | **2.6%** | 2.7% | None | 0.92% | **288%** | **$1,232** | Robert J. Haber |
| **CGM Mutual** 800-345-4048 | **8.8%** | 2.3% | **2.5%** | 3.7% | None | 0.93% | **201%** | **$475** | G. Kenneth Heebner |
| **Phoenix Balanced** 800-243-4361 | **8.2%** | 2.0% | **2.5%** | 3.1% | 4.75% | 1.02% | **134%** | **$1,725** | Patricia Bannan |
| **Equitable Balanced Back-Load** 800-852-6860 | **8.0%** | -0.7% | **1.6%** | 2.3% | 5.00%[4] | 2.15% | **103%** | **$32** | Judith A. Taylor |
| **MainStay Total Return** 800-522-4202 | **7.9%** | -3.3% | **1.7%** | 2.2% | 5.00%[4] | 1.80% | **213%** | **$265** | R. Akhoury, E. Spelman |
| **Kemper Total Return** 800-621-1048 | **7.5%** | -2.4% | **1.6%** | 1.5% | 5.75% | 1.03% | **157%** | **$1,144** | Gordon P. Wilson |
| **CONVERTIBLE BOND** GROUP AVERAGE[3] | **5.2%** | **6.3%** | | | | | | | |
| **Lexington Convertible Securities** 800-526-0057 | **8.5%** | 6.1% | **1.2%** | 0.5% | None | 2.50% | **29%** | **$6** | Richard B. Russell |
| **Pacific Horizon Capital Income** 800-332-3863 | **8.2%** | 7.6% | **2.7%** | 2.7% | 4.50% | 0.90%[5] | **278%** | **$7** | William Hensel |
| **Vanguard Convertible Securities** 800-662-7447 | **7.0%** | 13.9% | **1.8%** | 1.7% | None | 0.86% | **62%** | **$77** | Rohit M. Desai |
| **Calamos Small/Mid Cap Conver.** 800-323-9943 | **6.7%** | 5.0% | **1.6%** | 2.3% | 4.50% | 2.00% | **112%** | **$3** | J. P. & N. P. Calamos |
| **SBSF Convertible Securities** 800-422-7273 | **6.3%** | 11.3% | **2.6%** | 2.4% | None | 1.37% | **53%** | **$34** | Louis R. Benzak |
| **BOND FUNDS** | | | | | | | | | |
| **JUNK** GROUP AVERAGE[3] | **4.3%** | **14.0%** | | | | | | | |
| **Merrill Lynch High-Income B** 800-637-3863 | **10.0%** | 16.0% | **4.0%** | 3.8% | 4.00%[4] | 1.36% | **40%** | **$641** | Vincent T. Lathbury |
| **Merrill Lynch High-Income A** 800-637-3863 | **9.4%** | 16.6% | **4.2%** | 4.1% | 4.00% | 0.60% | **40%** | **$629** | Vincent T. Lathbury |
| **Oppenheimer Champ. High-Yield** 800-525-7048 | **9.1%** | 10.6% | **4.0%** | 3.9% | 4.75% | 1.49% | **115%** | **$37** | Ralph W. Stellmacher |
| **Liberty High-Income Bond** 800-245-4770 | **8.3%** | 15.8% | **4.2%** | 3.9% | 4.50% | 1.02% | **37%** | **$358** | Mark E. Durbiano |
| **Kemper Diversified Income** 800-621-1048 | **7.8%** | 14.3% | **4.1%** | 3.6% | 4.50% | 1.21% | **20%** | **$255** | Michael A. McNamara |
| **MORTGAGE-BACKED** GROUP AVERAGE[3] | **7.3%** | **5.7%** | | | | | | | |
| **Vanguard Fixed Income GNMA** 800-662-7447 | **9.7%** | 10.6% | **2.6%** | 2.5% | None | 0.29% | **1%** | **$6,101** | Paul G. Sullivan |
| **Benham GNMA Income** 800-472-3389 | **9.2%** | 10.1% | **2.6%** | 2.4% | None | 0.62% | **97%** | **$829** | Randy Merk |
| **Scudder GNMA** 800-225-2470 | **9.1%** | 10.1% | **2.6%** | 2.5% | None | 0.99% | **147%** | **$412** | David H. Glen |
| **Federated GNMA Trst. Inst. Sh.** 800-245-2423 | **9.1%** | 9.6% | **2.7%** | 2.5% | None | 0.51% | **57%** | **$1,528** | Gary J. Madich |
| **Lexington GNMA Income** 800-526-0057 | **9.0%** | 10.1% | **2.6%** | 2.3% | None | 1.02% | **139%** | **$131** | Denis Jamison |
| **TREASURY** GROUP AVERAGE[3] | **8.0%** | **10.0%** | | | | | | | |
| **Dreyfus 100% U.S. Treas. L-T** 800-782-6620 | **9.1%** | 13.1% | **2.6%** | 2.5% | None | 0.56% | **21%** | **$226** | Barbara L. Kenworthy |
| **Federated Inter. Govt. Trust** 800-245-2423 | **8.7%** | 10.5% | **2.2%** | 1.9% | None | 0.50% | **108%** | **$736** | R. A. Early, S. M. Nason |
| **Dreyfus 100% U.S. Tr. Inter.** 800-782-6620 | **8.7%** | 12.2% | **2.6%** | 2.5% | None | 0.49% | **22%** | **$203** | Barbara L. Kenworthy |
| **Vanguard Fixed Inc. L-T U.S.** 800-662-7447 | **8.4%** | 11.8% | **2.5%** | 2.7% | None | 0.26% | **89%** | **$835** | I. MacKinnon, A. Jiorle |
| **Rushmore U.S. Govt. Inter.-Term** 800-343-3355 | **8.3%** | 13.3% | **2.4%** | 2.1% | None | 0.79% | **106%** | **$16** | Daniel L. O'Connor |
| **MUNICIPAL** GROUP AVERAGE[3] | **7.8%** | **6.9%** | | | | | | | |
| **General Municipal Bond** 800-645-6561 | **11.1%** | 13.2% | **0.1%** | 0.1% | None | 0.01% | **38%** | **$932** | A. Paul Disdier |
| **Scudder High Yield Tax Free** 800-225-2470 | **10.2%** | 13.2% | **0.3%** | 0.5% | None | 1.00% | **46%** | **$178** | Philip G. Condon |
| **Vanguard Municipal High-Yield** 800-662-7447 | **10.0%** | 12.5% | **0.4%** | 0.3% | None | 0.22% | **78%** | **$1,469** | I. MacKinnon, J. Jacobs |
| **Vanguard Municipal L-T** 800-662-7447 | **9.9%** | 12.0% | **0.5%** | 0.6% | None | 0.22% | **74%** | **$931** | I. MacKinnon, J. Jacobs |
| **Safeco Municipal Bond** 800-426-6730 | **9.6%** | 11.4% | **0.3%** | 0.3% | None | 0.54% | **25%** | **$475** | Steve Bauer |
| **GLOBAL** GROUP AVERAGE[3] | **5.1%** | **9.1%** | | | | | | | |
| **Scudder International Bond** 800-225-2470 | **15.7%** | 20.1% | **3.9%** | 4.8% | None | 1.25% | **104%** | **$541** | F. Mark Turner |
| **T. Rowe Price International Bond** 800-638-5660 | **13.0%** | 22.1% | **2.9%** | 2.9% | None | 1.10% | **296%** | **$521** | David Boardman |
| **Van Eck World Income** 800-221-2220 | **11.6%** | 13.0% | **3.5%** | 3.2% | 4.75% | 1.39% | **109%** | **$221** | K. Buescher, D. Kenerson Jr. |
| **Merrill Lynch Gl. Bnd. for Inv. B** 800-637-3863 | **11.1%** | 11.1% | **3.1%** | 2.9% | 4.00%[4] | 1.65% | **68%** | **$466** | David B. Walter |
| **MFS Worldwide Governments** 800-225-2606 | **10.9%** | 14.5% | **2.4%** | 2.5% | 4.75% | 1.61% | **208%** | **$323** | Leslie J. Nanberg |

[1]Performance is through August 1992 and net of annual expenses, brokerage costs, and sales loads; also net of taxes, assuming a 28% rate for capital gains and income distributions. [2]Percent of portfolio assets that were bought or sold over the past year. [3]Average annual return for all funds tracked by Morningstar in each category. [4]Deferred sales charge, which declines over time. [5]Currently absorbed by the management company.

# SHOULD YOU KEEP IT ALL IN THE FAMILY?

Fidelity. Vanguard. Merrill Lynch. To investors, the names are as familiar as Kellogg, Ford, or GE. But chances are you know more about corn flakes or your Ford Taurus than about the specific funds in a big fund family. Usually it's the performance of a star fund that lures in your first dollar. But how good are your second, third, and fourth fund picks?

FORTUNE studied the performance of stock and bond funds within each of the top ten fund families, ranked by assets under management as of June. Amenities like check cashing or fund transfer privileges are nice. But here we focused only on the bottom line: How many funds outdid their respective peer group averages? Also, how many domestic stock funds returned more than Standard & Poor's 500-stock index over the three-year period ended August 31? The numbers we used were those reported by the funds themselves; the returns were *not* subject to the tax and sales-load deflator applied to the winners on our list of the Best Mutual Funds.

The numbers indicate that even top fund families can't always be relied upon for superior performance. At six of the families, over half the stock funds failed to keep up with the S&P 500; only at Putnam did more than 50% beat the index. Even though Putnam placed just one winner on our Best Mutual Funds list—**Putnam Global Growth A**—all its funds made money during the past three years.

In head-to-head competition among funds within a specific group—international stocks, say, or small-cap stocks—most of the big fund families look better. IDS, a subsidiary of American Express, had the best record: Nearly 80% of its stock funds beat their group averages. By patiently holding winners like Philip Morris and Wal-Mart Stores in its growth stock funds, IDS came through with a slew of champs.

Most bond fund managers performed creditably, with the exception of Dean Witter and Prudential, four-fifths of whose fixed-income funds lagged behind group averages. The **Dean Witter Convertible Securities** fund, for example, returned only 2.8% per year, vs. 8.2% for the average convertible fund. Vanguard is the hands-down champion among bond fund families; 19 of its 21 funds with three-year records scored in the top half of their peer group. Vanguard's expenses are routinely the lowest in the industry, an edge that to Treasury fund managers is akin to giving a 100-meter runner a head start.

Vanguard is much slower out of the block with its stock funds. In fairness, that's partly because it sells so many index funds, the best known being the $5.8 billion **Vanguard Index 500**. Because the funds simply aim to match whatever market they are indexed to, they obviously come up short after subtracting expenses—even Vanguard's minuscule ones.

Fidelity is another story. On our list of the Best Mutual Funds, it shows up in the growth stock, the international stock, and the balanced categories. Despite its size—it has more assets, $87 billion, and more stock and bond funds by far, 124, than any other family—Fidelity is remark-

## WHICH FUND FAMILIES REALLY DELIVER?

| FUND FAMILY | NET ASSETS in billions | STOCK FUNDS Number of funds | STOCK FUNDS % beating S&P 500 | STOCK FUNDS % above group average | BOND FUNDS Number of funds | BOND FUNDS % above group average |
|---|---|---|---|---|---|---|
| Fidelity | $87.1 | 77 | 50% | 68% | 47 | 63% |
| [illegible] | $72.6 | 21 | 44% | 69% | 19 | 50% |
| Vanguard | $66.2 | 29 | 21% | 46% | 21 | 89% |
| [illegible] | $54.9 | 13 | 42% | 67% | 9 | 56% |
| Putnam | $34.0 | 22 | 54% | 54% | 26 | 67% |
| [illegible] | $32.8 | 36 | 17% | 41% | 39 | 61% |
| IDS | $25.2 | 17 | 50% | 79% | 16 | 56% |
| [illegible] | $24.6 | 11 | 50% | 70% | 10 | 20% |
| Dreyfus | $22.5 | 13 | 36% | 73% | 21 | 50% |
| [illegible] | $19.1 | 23 | 18% | 36% | 38 | 17% |

IM MCMANUS FOR FORTUNE
SOURCE: MORNINGSTAR

All performance measures are based on three-year returns through August 1992.
[1]As of June 30, 1992, for all stock and bond funds. [2]Includes only domestic stock funds.
[3]Group average is the average annual return for each stock and bond fund's respective group category.

ably agile. The firm is chockablock with talented managers and is widely regarded as the best training ground for up-and-comers. In-house competition is fierce as managers hop from fund to fund, directing ever larger sums of money. Fidelity is one of the few places where rapid management turnover doesn't seem to crimp performance.

The American Funds Group in Los Angeles operates much differently than Fidelity but still turns in impressive results. American's **Capital Income Builder** is the best-performing equity income fund on our list. The firm has no management stars; instead, each of its funds is run by a group of people who divvy up a portfolio and invest independently. Consistency is a hallmark of the American funds, which tend to buy for the long term.

Franklin's acquisition of Templeton, announced this summer, created a whole new kind of fund family. We've combined the two companies on our chart, and the wisdom of melding world stock scion Templeton with bond baron Franklin is apparent. Templeton has five stock funds that invest overseas, and four of them, led by **Templeton Foreign**, beat the averages. Franklin's bond funds weren't quite as impressive, but half still returned more than their peers.

Among the big brokerage firms, performance is fairly dismal. It's not that they don't have good funds; **Merrill Lynch Corporate High-Income A** and **B** were our junk bond winners. It's just that they have so many bad ones. Prudential, for example, sells too many funds like **Prudential Growth B**, which has earned hardly anything for investors over the past three years. Add in its 5% back-end load, and you actually lose money.

There are many reasons to invest with a single fund company. Over time you become familiar with the sales reps and the annual reports. And it's nice to be able to switch assets quickly and easily among different types of funds within the family. Just make sure you examine the investment strategies of the family and its various funds as carefully as you look at the fat content of your corn flakes.

**Fidelity has more money in stock and bond funds than any other family, and more than half its funds beat their three-year peer group averages.**

# WINNERS WIN AND LOSERS LOSE

*You've got the* Daily Racing Form *in your hand, and the ticket window beckons. You've looked over the horses, you know who's sired whom, and you've even checked out the turf. Now you're studying the most important thing, the horses' win-place-show records. Sure, you want to bet on an occasional long shot. But put most of your money on proven winners, horses that have outrun the pack before and will do it again.*

Gambling on horses is not the same as gambling with your savings. But when you buy a mutual fund, you should use a similar strategy. Once you've settled on the kind of fund you want to buy, the first thing you should look at is past performance. Over time, winners win and losers lose. Since 1988 the best diversified fund has been Roger Engemann's **Pasadena Balanced Return**, with a 16.6% average annual return before deducting sales loads and taxes. **Steadman American Industry**, a growth and income fund that has lost 17.5% a year on average since 1988, has been in or near the cellar every year since 1981.

Keep in mind that one year does not a dynasty make. **Dean Witter High-Yield Securities** has the best 12-month record of any bond fund, returning 37% through August. But over the past five years, its average annual return has been a meager 2.4%. The fund's 1992 performance has not been enough to make up for years of subpar returns, notably a 40% loss in 1990. On the other hand, **Merrill Lynch Corporate High-Income A** returned 15.1% in the last year. Its five-year record is 12.3%. Over ten years, the fund has lost money only once.

Three- to five-year records are good tools to determine a fund's future performance, says Don Phillips, publisher of Morningstar. Ask your broker for them or look at the prospectus. Managers matter too. When a fund is run by one individual, the captain's personal record means everything. Merrill's junk fund has been managed by Vincent Lathbury since 1982. There's no guarantee he will continue to do well, but then again, how much would you have bet against Secretariat? Or take the growth fund winner **Janus Twenty**. In its first two

**Portrait of a winner: Roger Engemann can afford to look comfortable.**

calendar years of existence as a value fund, it lost money. In 1988, Thomas Marsico came on board and changed its orientation to growth. His fund returned 19% that year and 51% the next, broke even in 1990, and gained 69% in 1991.

Past performance can also be a helpful indicator of when to buy. When great funds consistently turn in solid numbers, there's little harm in purchasing them at whim. American Funds' **EuroPacific Growth** is a fine example of an all-weather, anytime foreign stock fund. It has never lost more than 1% a year since it was started in 1984, despite yo-yo returns in its markets. With top funds that are more volatile, you may want to consider dollar cost averaging—investing a certain amount each month. Alternatively, buy them when they're down. Janus Twenty is off nearly 10% this year, but it still gets Morningstar's highest five-star rating. A good bet? F

# GO ABROAD FOR BIGGER RETURNS

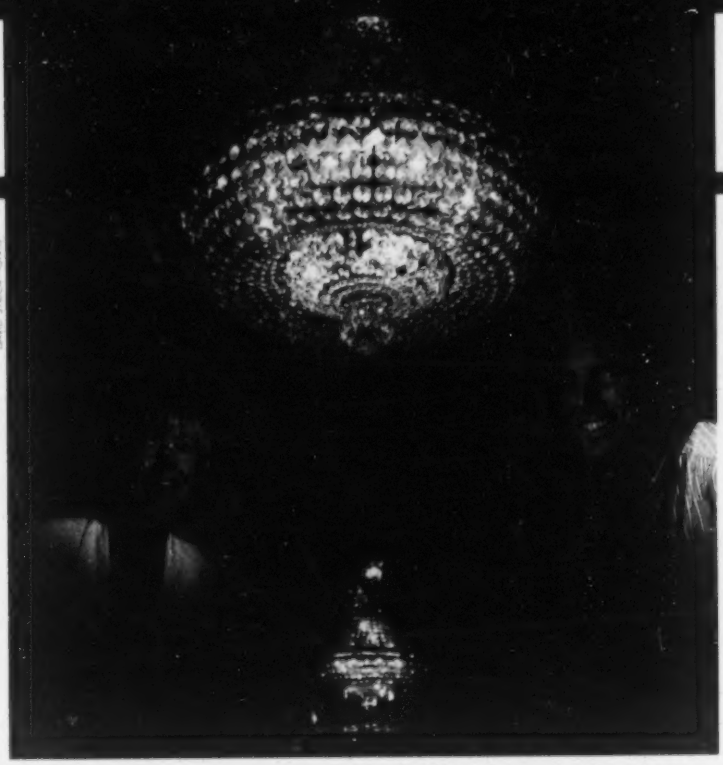
Foreign stock markets offer greater growth potential than those in the U.S. To invest in them, you can choose from more than 200 mutual funds or a growing list of ADRs. ■ *by Joshua Mendes*

BUY MEXICAN STOCKS? That's certainly not something Bonnie and Timothy Sprague had thought of five years ago. For the husband-and-wife radiologists from Santa Monica, California, Mexico was a place to *spend* money—on vacation—not make it. Today, because of a cocktail party conversation with a Merrill Lynch broker, the Spragues have tripled their initial $4,100 investment in Teléfonos de México, the national telephone company. They have also bought shares of companies in Britain and Hong Kong, two Pacific Rim mutual funds, a Latin American fund, and a global fund—all profitably.

There have been some bumps down south. Telmex and an investment in Mexican retailer Cifra six months ago are both down 25% from their highs this year along with the market. But the Spragues are sticking with them. Says Bonnie: "You have to ride the ups and downs. Hey, I bought IBM and Digital several years ago, and you see what happened to them."

The Spragues are hardly unique anymore. Last year U.S. investors, including both individuals and institutions, bought a record $35 billion of foreign stocks—nearly three times the previous record in 1989. The reason is simple enough: Foreign markets have been more profitable. Of 18 major stock markets tracked by Morgan Stanley over the past ten years through August, the U.S. ranked 12th, with a total return of 351%, including reinvested dividends. In the lead was Belgium (yes, Belgium!), with

**Europe has strong companies whose shares are cheaper than U.S. competitors'. Alastair Ross Goobey, of James Capel in London, likes BAT Industries.**



The Spragues have good reason to smile. Nearly all their foreign investments are up.

a return of 1,080%, followed by the Netherlands, with 781%, and France, with 671%. Not once in those years did the U.S. rank first, and it ranked in the bottom half five times.

Investing abroad also spreads your risk, since global markets usually do not move together. Says John Bolsover, who oversees $34 billion for Baring Asset Management in London: "It's no more complex than the all-the-eggs-in-one-basket concept. Sometimes the basket drops." Take 1987, the year of the crash. U.S. stocks were up just 3%—less than the rate on three-month Treasury bills. While some markets suffered even more—Germany was down 25%—Britain rose 35%.

There are over 200 U.S.-based mutual funds that invest in foreign stocks, nearly triple the number five years ago. That includes about 65 global funds, which invest anywhere in the world; 85 international funds, which invest everywhere but the U.S.; 45 regional funds, which invest in just one part of the world, such as the Pacific Rim or Latin America; and 40 single-country funds. In addition, the number of foreign companies that sell shares through American depositary receipts (ADRs) has tripled in five years to about 450.

Still, as with any investment, the question remains: Where in the world should you put your money now? Here are some ideas culled from dozens of interviews with investment professionals around the world.

## EUROPE

■ Europe has a large number of globally competitive companies whose shares are far cheaper than those of their U.S. counterparts. The average price/earnings ratio for most European markets is between 13 and 15—compared with well over 20 in the U.S.—and the average dividend yield is 50% higher. The one problem—and it's a big one—is Europe's economy, which is burdened with sluggish growth, widening budget deficits, and high unemployment rates. J.P. Morgan forecasts GDP to grow just 1%, on average, for European countries this year.

Partly, Europe is suffering from too much borrowing and spending in the 1980s. But the immediate problem is Germany, which has been keeping interest rates painfully high to fight inflationary pressures caused by the country's huge spending for unification. That policy has clashed with Europe's own drive for economic and political unity, which has included keeping currencies generally aligned. To do so, other European countries until recently have had to keep their interest rates high, stifling business activity.

When the strain grew too great in September, Britain and Italy, among others, lowered interest rates and allowed their currencies to plummet. Germany finally lowered its own rates slightly and may well ease further in the months ahead. Alastair Ross Goobey, chief investment strategist at James Capel in London, predicts that Germany's central bank will lower rates in several steps by another one to 1.5 percentage points by early next year.

Lower interest rates would lift stocks, but U.S. investors should also protect themselves against currency risk because falling rates would push down European currencies, which have risen this year to historically high levels against the dollar. One solution is options or futures that rise in value as the dollar does. However, these instruments can be complicated and expensive. An easier way is to buy such European stock funds as **GT Europe Growth**, which hedge currency exposure for you. GT was recently spending about 3% of assets to hedge 50% of its currency risk, but the fund expects to more than make up that through a rise in stock prices.

If you want to invest directly in stocks, European professionals suggest buying shares of companies with large, profitable U.S. operations that will benefit from a rise in the dollar. Goobey of James Capel likes two British concerns: **Grand Metropolitan**, which receives about half its profits from American food and beverage businesses, including Burger King and Pillsbury; and **BAT Industries**, the world's second-largest tobacco company after Philip Morris, which earns more than 70% of its profits from the U.S. Both available through ADRs, they sell at around 12 times Goobey's estimate of 1993 earnings. BAT also packs a 6% yield.

Another tactic is to buy shares of big exporters whose products will become more competitively priced in the U.S. as the dollar strengthens. One company that should get a lift, says Alan Rubenstein, a director of Barclays de Zoete Wedd Investment Management in London, is **Rolls-Royce**, a maker of jet engines (the cars are made by Vickers). He thinks that the stronger dollar should help the company compete against General Electric and Pratt & Whitney. Rolls is doing fine anyway, with firm orders for more than 400 engines in each of the next two years. Rubenstein believes that the stock, which has an ADR traded over the counter, is ready to take off. It sells for just 13 times his estimate for 1993 earnings.

Drug companies, always large exporters to the U.S., are especially good bargains compared with their American rivals. John Horseman of Global Asset Management in London is bullish on **Astra** of Sweden, which has been increasing earnings at a 40% annual rate, helped by Losec, a new anti-ulcer drug. He also likes Swiss drugmakers **Roche** and **Sandoz**, which recently introduced ADRs in the U.S.

## JAPAN

■ The pros disagree. That's always true. But the contrasting views are starker now in Japan. Barton Biggs, Morgan Stanley's worldwide investment strategist, is skeptical. Kenneth W. Anderson, a managing director of J.P. Morgan Investment Management, is bullish.

*continued*

Templeton's Mark Mobius (right), with his broker, checks out Korea.

Biggs was unimpressed when the Japanese government came up with its $86 billion bailout package in August to stem the Tokyo market's slide to a six-year low. Says he: "Government attempts to support stock markets have never worked anytime, anywhere. Finance ministers do not end bear markets." He believes the Nikkei average, Japan's leading market barometer, is still too high in light of problems at Japanese banks, which are staggering under the weight of billions of dollars in bad real estate loans. By his estimate, the market currently sells at about 50 times earnings for the fiscal year ending next March. "That's not what I call cheap," he says. He thinks the Nikkei, recently at about 18,000, could fall below 14,000.

Anderson's brighter view is based on the market's price-to-cash-flow multiple of 8.5 and price-to-book-value multiple of 1.9, both a touch below U.S. levels. He also points to Japan's balanced budget, unique among major industrial nations; its people, who work longer hours than Americans and Germans; and the country's famous annual personal savings rate, still impressively high at about 15%—nearly three times that of the U.S.

So which one do you follow? Joe Scott Plummer, chief investment officer of Martin Currie, one of Scotland's famed investment firms known for their patient, long-term approach, suggests a compromise, that old standby, "dollar cost averaging," where you invest a fixed amount of money at set intervals—say, $100 each month. This is easiest through a mutual fund like Scudder's **Japan Fund**, which will automatically transfer funds from your bank for you.

If you want to invest directly, a number of managers—including Biggs—would buy the big blue-chip exporters Japan is famous for, such as **Canon**, **Sony**, **Matsushita**, and **Hitachi** (all available through ADRs). While sales have been dampened by the global recession, these companies should emerge even more competitive because of heavy R&D investment and aggressive cost cutting. Plus, the price is right. All have price/earnings ratios below 20 and price-to-cash-flow ratios below 7, and sell near or below book value.

### ASIA

■ There is no place in the world about which money managers are more enthusiastic. A typical comment comes from Keith Brown, chairman of London-based Worldinvest, which invests $4 billion for such blue-chip companies as McKinsey & Co. and Philip Morris: "If I had to leave my money in one area of the world and not touch it for ten years, that's where I'd put it."

Brown and other investment experts see a formidable group of competitors—Korea, Taiwan, Hong Kong, Singapore, Thailand, and Malaysia—that show no sign of easing up. Last year GDP of these countries grew over 7% on average for the third consecutive year, and J.P. Morgan estimates it will remain close to that in 1992 and 1993.

> Asia is the one place that money managers rave about.

The secret? Mostly it comes down to a strong work ethic, but the countries also benefit from young populations, strong family ties, pragmatic governments supportive of business, and—except in Malaysia—an absence of major religious or ethnic strife. For the U.S. investor, there is an added benefit—their currencies mostly are tied to the dollar, so you won't get hammered with currency losses when the dollar rallies.

Despite their attractiveness as a group, Asia's individual markets can be volatile. For that reason most investors would do well to choose a diversified mutual fund specializing in the region. To get the biggest bang, you'll want ones that exclude Japanese stocks, such as **T. Rowe Price New Asia** and **Newport Tiger**. If you're feeling confident about a specific market, there are closed-end single-country funds for individual countries that trade mostly on the New York Stock Exchange.

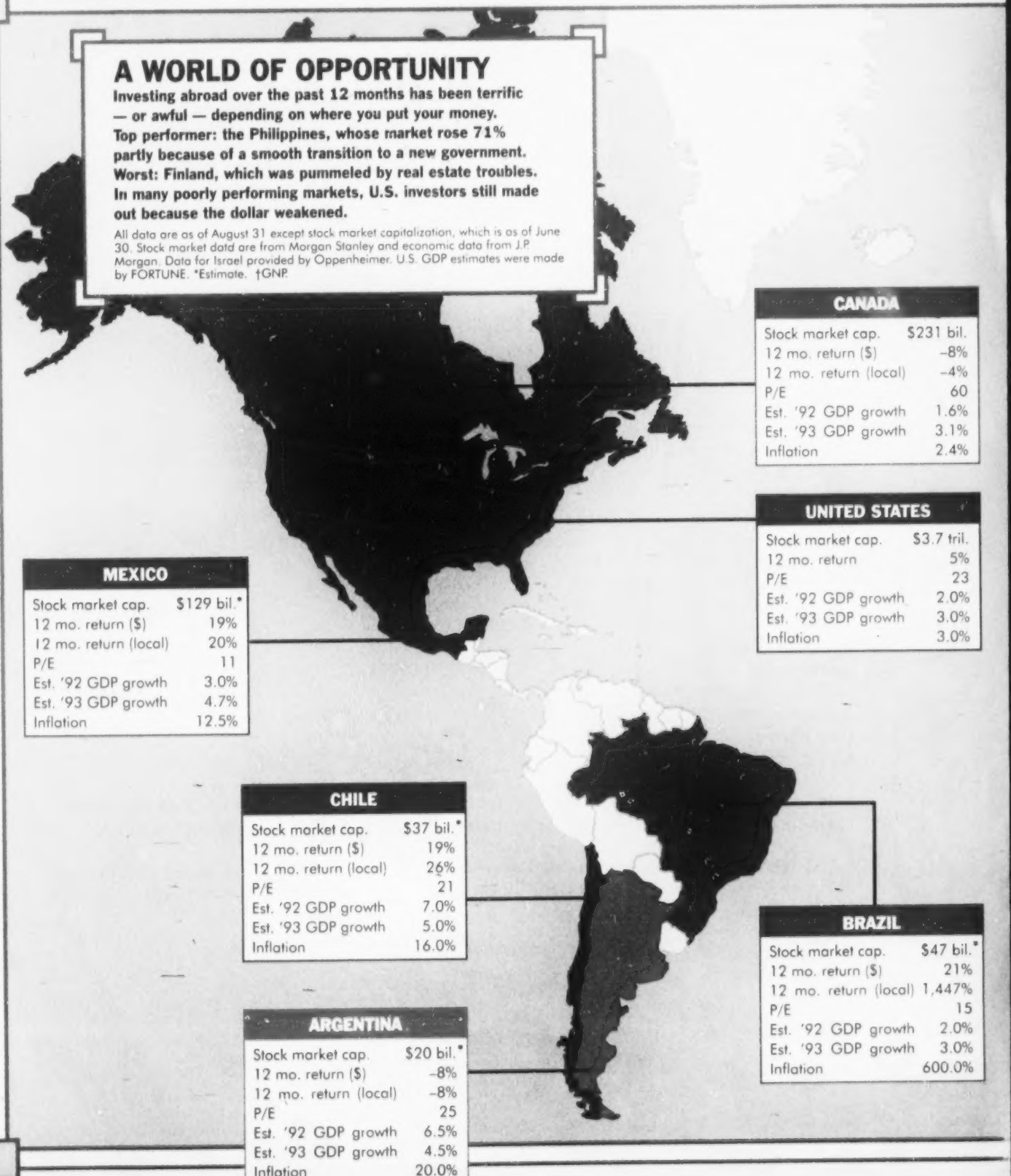
Hong Kong should be a good bet because of its role as the capitalist gateway to an increasingly open China, but since share prices have tripled since 1989, investors will find better values elsewhere. Mark Mobius, manager of the **Templeton Emerging Markets Fund**, is beginning to eye Korean stocks. Many have tumbled more than 50% from their overblown highs of the late 1980s. He is encouraged by the country's closer ties to North Korea, which could provide cheap labor, and to China, which could become an important market. Avoid the **Korea Fund**, which trades at a pricey 21% premium to net asset value, but consider the **Korea Investment Fund** if its 11% premium comes down a bit.

Other countries that have ridden out some bumps of late are Thailand and India. Both saw share prices decline earlier this year. Thailand's market reacted to a harsh government crackdown on protesters. The atmosphere is calmer now, but shares still sell for just 12 times earn-

# A WORLD OF OPPORTUNITY

**Investing abroad over the past 12 months has been terrific — or awful — depending on where you put your money. Top performer: the Philippines, whose market rose 71% partly because of a smooth transition to a new government. Worst: Finland, which was pummeled by real estate troubles. In many poorly performing markets, U.S. investors still made out because the dollar weakened.**

All data are as of August 31 except stock market capitalization, which is as of June 30. Stock market data are from Morgan Stanley and economic data from J.P. Morgan. Data for Israel provided by Oppenheimer. U.S. GDP estimates were made by FORTUNE. *Estimate. †GNP.



| CANADA | |
|---|---|
| Stock market cap. | $231 bil. |
| 12 mo. return ($) | –8% |
| 12 mo. return (local) | –4% |
| P/E | 60 |
| Est. '92 GDP growth | 1.6% |
| Est. '93 GDP growth | 3.1% |
| Inflation | 2.4% |

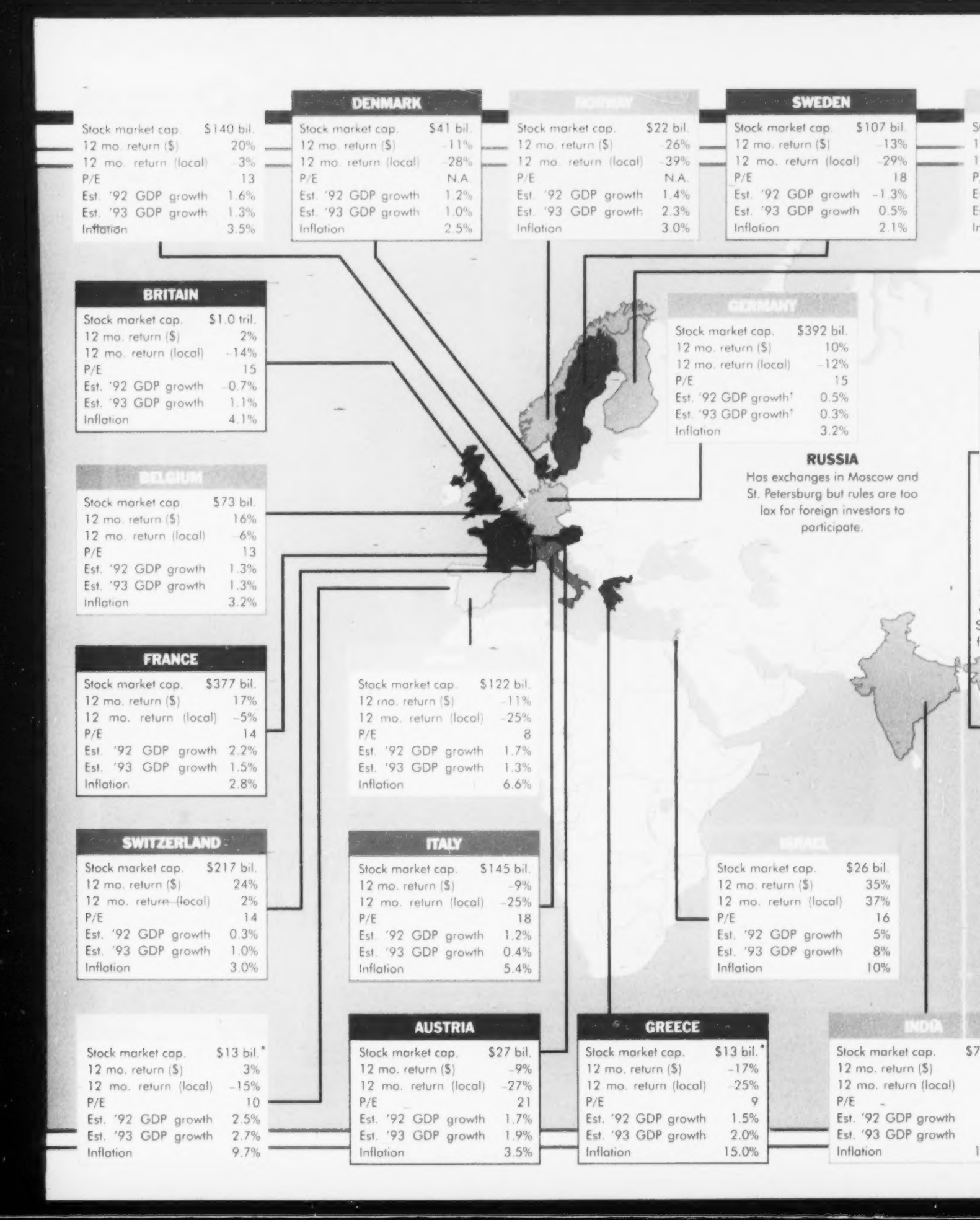
| UNITED STATES | |
|---|---|
| Stock market cap. | $3.7 tril. |
| 12 mo. return | 5% |
| P/E | 23 |
| Est. '92 GDP growth | 2.0% |
| Est. '93 GDP growth | 3.0% |
| Inflation | 3.0% |

| MEXICO | |
|---|---|
| Stock market cap. | $129 bil.* |
| 12 mo. return ($) | 19% |
| 12 mo. return (local) | 20% |
| P/E | 11 |
| Est. '92 GDP growth | 3.0% |
| Est. '93 GDP growth | 4.7% |
| Inflation | 12.5% |

| CHILE | |
|---|---|
| Stock market cap. | $37 bil.* |
| 12 mo. return ($) | 19% |
| 12 mo. return (local) | 26% |
| P/E | 21 |
| Est. '92 GDP growth | 7.0% |
| Est. '93 GDP growth | 5.0% |
| Inflation | 16.0% |

| BRAZIL | |
|---|---|
| Stock market cap. | $47 bil.* |
| 12 mo. return ($) | 21% |
| 12 mo. return (local) | 1,447% |
| P/E | 15 |
| Est. '92 GDP growth | 2.0% |
| Est. '93 GDP growth | 3.0% |
| Inflation | 600.0% |

| ARGENTINA | |
|---|---|
| Stock market cap. | $20 bil.* |
| 12 mo. return ($) | –8% |
| 12 mo. return (local) | –8% |
| P/E | 25 |
| Est. '92 GDP growth | 6.5% |
| Est. '93 GDP growth | 4.5% |
| Inflation | 20.0% |



| | |
|---|---|
| Stock market cap. | $140 bil. |
| 12 mo. return ($) | 20% |
| 12 mo. return (local) | -3% |
| P/E | 13 |
| Est. '92 GDP growth | 1.6% |
| Est. '93 GDP growth | 1.3% |
| Inflation | 3.5% |

**DENMARK**

| | |
|---|---|
| Stock market cap. | $41 bil. |
| 12 mo. return ($) | -11% |
| 12 mo. return (local) | -28% |
| P/E | N.A. |
| Est. '92 GDP growth | 1.2% |
| Est. '93 GDP growth | 1.0% |
| Inflation | 2.5% |

**NORWAY**

| | |
|---|---|
| Stock market cap. | $22 bil. |
| 12 mo. return ($) | -26% |
| 12 mo. return (local) | -39% |
| P/E | N.A. |
| Est. '92 GDP growth | 1.4% |
| Est. '93 GDP growth | 2.3% |
| Inflation | 3.0% |

**SWEDEN**

| | |
|---|---|
| Stock market cap. | $107 bil. |
| 12 mo. return ($) | -13% |
| 12 mo. return (local) | -29% |
| P/E | 18 |
| Est. '92 GDP growth | -1.3% |
| Est. '93 GDP growth | 0.5% |
| Inflation | 2.1% |

**BRITAIN**

| | |
|---|---|
| Stock market cap. | $1.0 tril. |
| 12 mo. return ($) | 2% |
| 12 mo. return (local) | -14% |
| P/E | 15 |
| Est. '92 GDP growth | -0.7% |
| Est. '93 GDP growth | 1.1% |
| Inflation | 4.1% |

**GERMANY**

| | |
|---|---|
| Stock market cap. | $392 bil. |
| 12 mo. return ($) | 10% |
| 12 mo. return (local) | -12% |
| P/E | 15 |
| Est. '92 GDP growth† | 0.5% |
| Est. '93 GDP growth† | 0.3% |
| Inflation | 3.2% |

**RUSSIA**

Has exchanges in Moscow and St. Petersburg but rules are too lax for foreign investors to participate.

**BELGIUM**

| | |
|---|---|
| Stock market cap. | $73 bil. |
| 12 mo. return ($) | 16% |
| 12 mo. return (local) | -6% |
| P/E | 13 |
| Est. '92 GDP growth | 1.3% |
| Est. '93 GDP growth | 1.3% |
| Inflation | 3.2% |

**FRANCE**

| | |
|---|---|
| Stock market cap. | $377 bil. |
| 12 mo. return ($) | 17% |
| 12 mo. return (local) | -5% |
| P/E | 14 |
| Est. '92 GDP growth | 2.2% |
| Est. '93 GDP growth | 1.5% |
| Inflation | 2.8% |

| | |
|---|---|
| Stock market cap. | $122 bil. |
| 12 mo. return ($) | -11% |
| 12 mo. return (local) | -25% |
| P/E | 8 |
| Est. '92 GDP growth | 1.7% |
| Est. '93 GDP growth | 1.3% |
| Inflation | 6.6% |

**SWITZERLAND**

| | |
|---|---|
| Stock market cap. | $217 bil. |
| 12 mo. return ($) | 24% |
| 12 mo. return (local) | 2% |
| P/E | 14 |
| Est. '92 GDP growth | 0.3% |
| Est. '93 GDP growth | 1.0% |
| Inflation | 3.0% |

**ITALY**

| | |
|---|---|
| Stock market cap. | $145 bil. |
| 12 mo. return ($) | -9% |
| 12 mo. return (local) | -25% |
| P/E | 18 |
| Est. '92 GDP growth | 1.2% |
| Est. '93 GDP growth | 0.4% |
| Inflation | 5.4% |

**ISRAEL**

| | |
|---|---|
| Stock market cap. | $26 bil. |
| 12 mo. return ($) | 35% |
| 12 mo. return (local) | 37% |
| P/E | 16 |
| Est. '92 GDP growth | 5% |
| Est. '93 GDP growth | 8% |
| Inflation | 10% |

| | |
|---|---|
| Stock market cap. | $13 bil.* |
| 12 mo. return ($) | 3% |
| 12 mo. return (local) | -15% |
| P/E | 10 |
| Est. '92 GDP growth | 2.5% |
| Est. '93 GDP growth | 2.7% |
| Inflation | 9.7% |

**AUSTRIA**

| | |
|---|---|
| Stock market cap. | $27 bil. |
| 12 mo. return ($) | -9% |
| 12 mo. return (local) | -27% |
| P/E | 21 |
| Est. '92 GDP growth | 1.7% |
| Est. '93 GDP growth | 1.9% |
| Inflation | 3.5% |

**GREECE**

| | |
|---|---|
| Stock market cap. | $13 bil.* |
| 12 mo. return ($) | -17% |
| 12 mo. return (local) | -25% |
| P/E | 9 |
| Est. '92 GDP growth | 1.5% |
| Est. '93 GDP growth | 2.0% |
| Inflation | 15.0% |

**INDIA**

| | |
|---|---|
| Stock market cap. | $7 |
| 12 mo. return ($) | |
| 12 mo. return (local) | |
| P/E | |
| Est. '92 GDP growth | |
| Est. '93 GDP growth | |
| Inflation | 1 |

| FINLAND | |
|---|---|
| k market cap. | $14 bil. |
| mo. return ($) | -36% |
| mo. return (local) | -41% |
| | N.A. |
| '92 GDP growth | -1.1% |
| '93 GDP growth | 1.5% |
| ation | 3.0% |

| JAPAN | |
|---|---|
| Stock market cap. | $2.1 tril. |
| 12 mo. return ($) | -10% |
| 12 mo. return (local) | -19% |
| P/E | 38 |
| Est. '92 GDP growth | 2.3% |
| Est. '93 GDP growth | 3.2% |
| Inflation | 1.8% |

| TAIWAN | |
|---|---|
| Stock market cap. | $134 bil.* |
| 12 mo. return ($) | -10% |
| 12 mo. return (local) | -15% |
| P/E | 29 |
| Est. '92 GDP growth | 7.5% |
| Est. '93 GDP growth | 7.2% |
| Inflation | 4.0% |

| THAILAND | |
|---|---|
| tock market cap. | $43 bil.* |
| 2 mo. return ($) | 14% |
| 2 mo. return (local) | 11% |
| /E | 12 |
| st. '92 GDP growth | 6.8% |
| st. '93 GDP growth | 7.0% |
| nflation | 4.4% |

| SOUTH KOREA | |
|---|---|
| Stock market cap. | $92 bil.* |
| 12 mo. return ($) | -29% |
| 12 mo. return (local) | -24% |
| P/E | 16 |
| Est. '92 GDP growth | 7.0% |
| Est. '93 GDP growth | 7.0% |
| Inflation | 9.5% |

| HONG KONG | |
|---|---|
| Stock market cap. | $180 bil. |
| 12 mo. return ($) | 39% |
| 12 mo. return (local) | 39% |
| P/E | 15 |
| Est. '92 GDP growth | 5.5% |
| Est. '93 GDP growth | 6.0% |
| Inflation | 10.0% |

**CHINA**

Has two exchanges, anghai and Shenzhen, th 40 listed companies. venteen are available to eigners through special shares.

| | |
|---|---|
| Stock market cap. | $17 bil.* |
| 12 mo. return ($) | 71% |
| 12 mo. return (local) | 45% |
| P/E | 12 |
| Est. '92 GDP growth | 4.0% |
| Est. '93 GDP growth | 4.5% |
| Inflation | 9.5% |

| MALAYSIA | |
|---|---|
| Stock market cap. | $78 bil.* |
| 12 mo. return ($) | 9% |
| 12 mo. return (local) | -2% |
| P/E | 18 |
| Est. '92 GDP growth | 8.0% |
| Est. '93 GDP growth | 8.5% |
| Inflation | 4.5% |

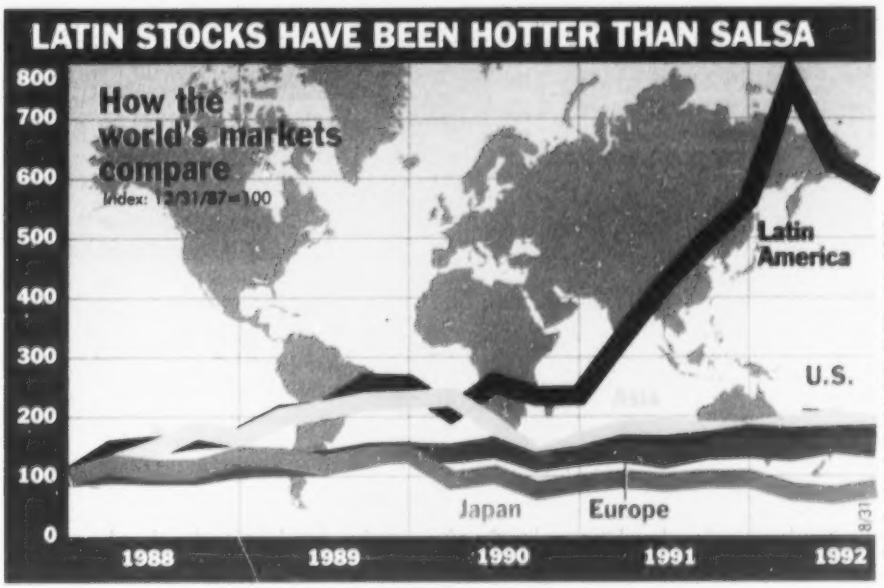
| INDONESIA | |
|---|---|
| Stock market cap. | $12 bil.* |
| 12 mo. return ($) | -5% |
| 12 mo. return (local) | -1% |
| P/E | 16 |
| Est. '92 GDP growth | 5.5% |
| Est. '93 GDP growth | 5.5% |
| Inflation | 7.5% |

| AUSTRALIA | |
|---|---|
| Stock market cap. | $144 bil. |
| 12 mo. return ($) | -9% |
| 12 mo. return (local) | 0% |
| P/E | 24 |
| Est. '92 GDP growth | 2.4% |
| Est. '93 GDP growth | 3.9% |
| Inflation | 0.4% |

| | |
|---|---|
| bil. | |
| 4% | |
| 6% | |
| 29 | |
| 5% | |
| 5% | |
| 5% | |

| SINGAPORE | |
|---|---|
| Stock market cap. | $83 bil. |
| 12 mo. return ($) | 5% |
| 12 mo. return (local) | -2% |
| P/E | 16 |
| Est. '92 GDP growth | 5.7% |
| Est. '93 GDP growth | 6.5% |
| Inflation | 2.3% |

| NEW ZEALAND | |
|---|---|
| Stock market cap. | $16 bil. |
| 12 mo. return ($) | -1% |
| 12 mo. return (local) | 5% |
| P/E | 15 |
| Est. '92 GDP growth | 2.0% |
| Est. '93 GDP growth | 2.3% |
| Inflation | 2.3% |




ings. What's more, you can pick up **Thai Capital Fund** at a 17% discount. Investors' confidence was shaken in India by banking and stock trading scandals. The government is likely to impose tighter controls, and share prices should get a boost now that the stock market has opened to foreign institutional investors. Individuals must still go through the **India Growth Fund** on the New York Stock Exchange.

Also attractive is Indonesia, where the government is working hard at reform. To cut corruption at its ports, the government hired a Swiss firm to conduct preshipment inspections. Shares trade at 16 times earnings, and investors can buy the **Indonesia Fund**, which trades at net asset value.

### LATIN AMERICA

■ The professionals may rave about Asia, but no other region can beat Latin America for share price increases in recent years. Impressed with political and economic reforms, investors have driven stocks to spectacular heights. Last year, shares rose in dollar terms 403% in Argentina, 169% in Brazil, 120% in Mexico, and 105% in Chile. Says Baring analyst Terence Mahony: "Asia was discovered over ten years. Latin America happened in 18 months."

After such a lightning run, though, share prices have been much more mixed as investors catch their breath. Over the long term there could be more handsome gains. Investors are very confident about Mexico and cautiously confident about the others. Says Michael Bullock, chief investment officer of London's Morgan Grenfell Asset Management, which tends over $30 billion in assets: "Mexico is for real. It is so close to the U.S. and has progressed so far socially and economically. The people have seen tangible benefits. We'll have to wait and see about the other countries. Democracy is in its infancy, and the man on the street hasn't benefited much yet."

One positive sign is repatriation of money by Latin Americans themselves. Mahony of Baring estimates that Mexicans and Argentines have brought home some $5 billion to $10 billion from bank accounts abroad. Says he: "I've heard of one Swiss banker who's very unhappy."

More than any other region, Latin America is best approached through a closed-end fund that invests in a number of countries. There are several on the New York Stock Exchange, including **Latin America Equity**, **Latin American Discovery**, and **Latin America Investment**. For investors with strong stomachs, there are also closed-end funds for each country. Chilean shares have been the most profitable, moving up 23% this year. At 21 times earnings, though, they look a bit pricey. So do Argentine shares, which have fallen 35% this year but still trade at a rich 25 times earnings.

> "You've got to buy at the moment when there is no hope."

A better buy is Mexico, where shares have also been falling, partly over concern that Bill Clinton, if elected, might reject the North American Free Trade Agreement. But shares trade at a very reasonable 11 times earnings, and analysts are growing more confident that Clinton would approve some form of Nafta. Plus, analysts expect corporate profits to rise 20% to 25% in each of the next two years. For a diversified portfolio, go with **Mexico Fund**, which trades at an 11% discount.

The biggest crapshoot is Brazil, where the market plunged recently after corruption charges were leveled against President Fernando Collor. Impeachment proceedings have begun. Barton Biggs thinks the political crisis provides a buying opportunity. Says he: "You've got to buy markets at the darkest moment—and this is it. There is no glimmer of hope as to how they're going to get out of the mess they're in. Stocks sell at a 50% discount to book value, and many blue chips sell around six times expected 1992 earnings. At these valuations, I'm willing to go on faith." For the daring there are two funds: **Brazil** and **Brazilian Equity**, which both trade at about a 5% premium.

### CANADA, AUSTRALIA, NEW ZEALAND

■ Mention these countries' names, and many investors will think of the troubling inflation they suffered in the 1980s. But the governments have cracked down and today can boast some of the lowest inflation rates in the world—a little over 2% in Canada and New Zealand and a stunning 0.4% in Australia. However, a lingering recession has kept stock prices down. That smells like a bargain to Gary Brinson, head of Brinson Partners in Chicago. He sees earnings in all three countries rising around 15% over the next year, helped by corporate cost cutting, which has increased profit margins. The most convenient entree is through **Alliance Global Canadian**, an open-end fund in New York, and **First Australia**, which trades on the American Stock Exchange at a 12% discount. There is no mutual fund for New Zealand, but a good alternative is **Telecom Corp. of New Zealand**, the national telephone company. The ADRs trade at a nice southerly P/E of 13. ■

SOURCES OF HELP

# MAKING THE MOST OF YOUR BROKER

He's acting a lot friendlier. But in the meantime your broker's fees are climbing fast. The quickest way to improve your performance is to get costs down. ■ *by Tricia Welsh*

THE DAY of the stockbroker is gone. Today Wall Street houses are manned by financial planners, investment managers, and advisers. No, the people haven't changed, nor their jobs. But brokers would like you to think of them as less commission hungry and more trustworthy; hence the name change. That's all well and good, but if you cherish your money, never forget that brokers—or whatever they're called—are employed to generate income, from you. They do nicely at it too. In 1991 brokers' average paycheck was $98,401, up 24% from the previous year.

That doesn't mean you shouldn't trust the fellow on the other end of the phone, only that you need to exercise prudence. In other words, pay for what you need and no more. If all you require is someone to execute trades, then use a discount firm. You'll pay about half the commission a full-service firm charges (see table, next page). If you want more from a broker, you are going to have to pay for it. But how much more will depend on how smartly you shop.

Since you pay handsomely for research from a full-service firm, be sure to get your money's worth. Says Keith Wirtz, chief investment officer of Bank of America's Investment Management division: "The big firms are all pretty good at providing accurate, detailed, and timely information on companies so you can make your own decisions. But much of the idea generation comes from smaller firms with particular market niches." He especially likes Montgomery Securities in San Francisco for its guidance on emerging growth companies.

The smaller research staffs at regional houses have registered an impressive performance. Zacks Investment Research in Chicago conducts a quarterly study with the *Wall Street Journal* of the one- and five-year total returns of the major brokerage firm stock recommendations and compares them with market indices. In the previous six quarters, Raymond James, a regional firm in St. Petersburg, Florida, led the pack with one- and five-year returns of 72.5% and 228.3%, respectively, far ahead of the Dow's 17.7% and 64.4%. That compares with Dean Witter, the best of the national firms, with a 32.1% return for one year and 90.4% for five years.

But don't assume these figures mean a firm's advice is infallible. Last year one of Raymond James's top picks was Cascade International, a cosmetics and clothing retailer that crashed after its chairman mysteriously disappeared. Not only did James's brokerage clients lose out, but the firm's money management arm was Cascade's third-largest shareholder.

All full-service brokers, large and small, have been unusually innovative in devising new fees. Merrill Lynch gets the prize for the biggest: Every time you trade there, you'll pay $4.85 to cover postage, handling, and miscellaneous expenses. You will be pardoned for assuming your commissions paid for that stuff. Most other firms charge $2.50 to $3. Trade less than once a year on average, and you'll probably pay a $50 inactive account fee. But even if you trade regularly at Merrill, you'll owe $40 just to maintain your account. Discounters don't charge these fees, but they do assess IRA accounts about $25 annually, compared with $35 to $40 at most full-service firms, and up to $100 at guess where.

Fees really start to add up if you have either a central asset account or a wrap account. Merrill Lynch was the first to popularize the central asset account, for which it coined the term Cash Management Account. These one-stop-shop programs offer a money market fund, check writing

**Traders at A.G. Edwards in St. Louis round up bonds that will be sold through the firm's 4,655 brokers.**

PHOTOGRAPH BY ELI REICHMAN

privileges, a bank credit card, and the right to borrow up to 50% of your cash balance at very competitive rates. Convenience is their chief virtue. When you buy stocks, cash is automatically transferred from your money fund, and you don't have to worry about getting a check to your broker within five working days. Conversely, when you sell the shares the proceeds are automatically swept into the money fund.

Most central asset accounts require a minimum balance of $10,000, either in securities or cash, and fees run from $60 annually at A.G. Edwards to $100 at Merrill, Shearson, and Prudential, as well as some regional brokerages. Discount firms have smaller minimum balances and no annual fees. Pay attention to the rate your money earns in that money fund and compare it with similar funds. Higher fees can be offset by higher returns, and vice versa.

Wrap accounts, the new rage on Wall Street, come with even bigger minimums, typically $100,000. You hand over this sum, and the broker recommends a money manager to invest it according to your goals. There are no commission charges on trades, but you do pay a flat percentage of your total assets, split between your broker and the money manager. Most national firms charge around 3% annually for equity funds and 1.25% to 1.5% for bond funds—so you are laying out $1,500 to $3,000 a year in fees. (Fees tend to decline when the account tops $250,000.)

If your current money manager happens to be a trigger-happy trader, then the wrap account, which imposes a flat fee, might make sense. But for most folks, the 3% charge each year is too much—especially when you can get the same quality of professional management from a no-load growth stock mutual fund and pay only about 1.5%.

When a broker starts pushing his firm's in-house mutual funds, watch out. The five leading retail brokers manage 20% of the $1.5 trillion mutual fund assets. Unfortunately, a firm's dual role as manager and merchant can create a conflict of interest since brokers are usually offered a larger piece of the sales load to sell their firm's products. Before you let your broker talk

# SIZING UP THE BROKERS

| BROKERAGE FIRM | COMMISSIONS | | | | FEES[2] | | | RESEARCH CAPABILITIES | |
|---|---|---|---|---|---|---|---|---|---|
| | 500 shares at $20 per share | 100 shares at $30 per share | One $10,000 Treasury bill[1] | Minimum commission | Transaction fee | Inactive account annual fee | IRA annual fee | Number of equity analysts | Number of companies followed |
| **NATIONAL** | | | | | | | | | |
| DEAN WITTER | $230 | $84 | $28 | $50 | $2.35 | $50 | $30 | 41 | 600 |
| A.G. EDWARDS | $227 | $83 | $45 | $42 | $2.00 | None | $30 | 31 | 457 |
| KEMPER | $233 | $85 | $50 | $50 | $2.25 | None | $35 | 23 | 350 |
| MERRILL LYNCH | $238 | $86 | $50 | None | $4.85 | $40[4] | $100[6] | 97 | 1,150 |
| PAINE WEBBER | $242 | $89 | $35 | None | $3.80 | $50[5] | $35 | 52 | 615 |
| PRUDENTIAL | $252 | $90 | $40 | $55 | $4.50 | $50 | $35 | 55 | 575 |
| SHEARSON LEHMAN | $246 | $83 | $60 | $50 | $3.85 | $50 | $40 | 113 | 1,100 |
| **REGIONAL** | | | | | | | | | |
| ADVEST Hartford | $223 | $82 | $50 | $35 | $3.50[3] | $20 | $30 | 8 | 58 |
| PIPER JAFFRAY Minneapolis | $236 | $82 | $45 | None | None | None | $35 | 20 | 250 |
| RAUSCHER PIERCE REFSNES Dallas | $237 | $82 | $50 | $50 | $2.50 | None | $35 | 7 | 135 |
| RAYMOND JAMES St. Petersburg, Florida | $218 | $80 | $100 | $45 | $3.00 | $25 | $35 | 18 | 187 |
| SUTRO San Francisco | $221 | $78 | $50 | $50 | $2.25 | None | $35 | 18 | 220 |
| **DISCOUNT** | | | | | | | | | |
| CHARLES SCHWAB | $110 | $55 | $39 | $39 | None | None | $22 | None | None |
| FIDELITY | $110 | $54 | $50 | $39 | None | None | $20 | None | None |
| OLDE DISCOUNT | $80 | $40 | $40 | $20 | None | None | None | 8 | 125 |
| QUICK & REILLY | $84 | $49 | $50 | $38 | None | None | $25 | None | None |
| **SUPER-DISCOUNT** | | | | | | | | | |
| PACIFIC BROKERAGE | $42 | $25 | $25 | $25 | $3.00 | $25 | $35 | None | None |
| WATERHOUSE | $61 | $35 | $50 | $35 | None | None | $25 | None | None |

[1]Purchased at time of auction. [2]All fees are the maximum that can be levied. [3]Applies only to purchases. [4]Fee is levied on all accounts, regardless of activity. [5]After 18 months. [6]Fee is 0.2% of assets, from $35 to $100. [7]Except where noted, fees are for accounts with check-writing privileges and a credit card. [8]Account does not include a credit card. [9]Unless other-

you into one of his firm's offerings, ask to see five years of performance figures and then compare the fund with others that have similar investment objectives.

When brokers are too eager to make a sale and investors are too gullible, serious problems arise. The National Association of Securities Dealers—an industry group in Washington, D.C., reports that in 1991 the public filed 3,519 complaints against brokers and their firms, and a third of these involved amounts over $100,000, vs. only 5% in 1980. According to a report by the General Accounting Office last May, the most frequent allegations were misrepresentation of investment risks, negligence, and unauthorized trading.

To avoid costly and time consuming litigation, many brokerage firms now require customers to sign an agreement to resolve disputes through arbitration. You may have no choice but to sign one of these agreements in order to trade with certain firms. Last year a record high 4,150 cases were filed for arbitration.

But Michael Hanzman, an attorney specializing in securities complaints with the Miami firm of Zack Hanzman Ponce & Tucker, points out that arbitration has advantages over a jury trial. Complaints are resolved faster—the average arbitration case takes ten to 11 months to settle compared with two to three years for a trial—the process is less expensive than litigation, and arbitrators are usually experienced in the securities industry, unlike jurors. The results for the investor are good too. The GAO's study shows that 60% of complainants received an award through arbitration, and that it averaged 60% of their claim. Punitive damages, however, were less common, occurring in only 12% of cases.

All firms have some problems. The ones to avoid are those with an above-average number of investor complaints. So before you entrust your life savings to a broker, telephone the NASD's toll-free number—(800) 289-9999—to find out if either he or his firm has a history of such actions.

Do you get what you pay for when you use a full-service firm? Probably, so long as you really use all their services. But don't blindly hand over your money to your broker, and don't be afraid to question fees and ask for discounts if you feel you deserve them. Demand the best in service—how else will you get it? F

| Number of fixed-income analysts | CENTRAL ASSET ACCOUNT Minimum opening balance | Annual fee[7] | Interest on $25,000 margin loan[9] | WRAP ACCOUNT Maximum annual fee: Equity account | Fixed-income account | NUMBER OF RETAIL OFFICES | NUMBER OF RETAIL BROKERS | TELEPHONE NUMBER |
|---|---|---|---|---|---|---|---|---|
| 4 | $10,000 | $80 | 7.50%[10] | 3.00% | 1.50% | 400 | 6,700 | 212-392-2855 |
| 8 | $20,000 | $60 | 6.00% | 3.00%[13] | 1.50%[13] | 457 | 4,655 | 314-289-3000 |
| 14 | $5,000 | $65 | 7.00% | 3.00% | 1.25% | 167 | 1,520 | 312-574-6000 |
| 35 | $20,000 | $100 | 7.38%[10] | 3.00% | 1.75% | 501 | 12,152 | 800-MER-RILL |
| 45 | $10,000 | $85 | 7.00% | 2.80% | 1.25% | 279 | 4,900 | 800-950-5050 |
| 60 | $10,000 | $100 | 7.90% | 3.00% | 1.25% | 300 | 6,000 | 800-367-8701 |
| 30 | $10,000 | $100 | 6.88% | 3.00% | 1.25% | 419 | 8,930 | 800-233-7857 |
| None | $5,000 | $40 | 6.75% | 2.75% | 2.60% | 87 | 570 | 800-243-8115[14] |
| 2 | $10,000 | $85 | 6.50% | 2.75% | 2.75% | 66 | 798 | 800-333-6000 |
| None | $10,000 | $100 | 7.00% | 2.80% | 1.30% | 18 | 250 | 800-285-9788 |
| 3 | $10,000 | $100 | 6.50% | 3.00% | 3.00% | 42 | 325 | 813-573-3800 |
| 1 | $20,000 | $100 | 6.75% | 3.00%[13] | 2.25%[13] | 14 | 194 | 415-445-8500 |
| None | $5,000 | None | 6.25% | N.A. | N.A. | 171 | 2,598 | 800-435-4000 |
| None | $5,000 | None | 6.00% | N.A. | N.A. | 69 | 930 | 800-544-7272 |
| 2 | $5,000 | None | 6.50% | N.A. | N.A. | 180 | 300 | 800-USA-OLDE |
| None | $500 | None[8] | 5.75% | N.A. | N.A. | 75 | 250 | 800-221-5220[15] |
| None | N.A. | N.A. | N.A.[11] | N.A. | N.A. | 5 | 60 | 800-421-8395[16] |
| None | N.A. | N.A. | N.A.[12] | N.A. | N.A. | 37 | 200 | 800-765-5185 |

rise noted, rate is tied to the broker's call rate, which was 5% in late September, plus a premium. [10]Interest rate is not tied to broker's call rate. [11]Margin loan is available on regular accounts at the broker's call rate plus1.25%. [12]Margin loan is available on regular accounts at the broker's call rate plus 1%. [13]Sum of two fees paid separately to the money manager and broker. [14]In Connecticut call 800-842-3807. [15]In New York call 212-747-5000. [16]In California call 213-939-1100.